Foreign Direct Investment and Greek Companies' Internationalisation Strategies in the Balkan Countries

Constantinos C. Choromides

Ph.D. in Social Sciences
The University of Edinburgh
2003

Acknowledgement

I would like to thank my two supervisors, professor John S. Henley and Dr. John Banasik for their support, encouragement and assistance during the last four years.

I would like to thank my family for their support during my studies in Edinburgh.

Finally, I would like to thank the Greek managers that I have interviewed and whose support and contribution towards the completion of this study is highly appreciated.

Declaration

I declare that this work has been solely completed by me and it has not been submitted or accepted before for any other degree.

Constantinos Choromides

Contents

Abstract

The principal objective of this research is to provide a theoretical and empirical framework for analysing the business activity of Greek companies in the Balkans. The theoretical part will present a framework for explaining the strategic aspects of the internationalisation process of the Greek companies in the Balkans, by integrating the resource based theoretical approach, which examines inter- alia ownership resource requirements, and the transaction costs approach, which involves examining variables relating to internalisation control and resources costs. This theoretical framework is then applied to the empirical examination of various aspects of the internationalisation process of Greek companies in the Balkans. These break down into three main areas: the internationalisation decision itself; the entry mode strategies; company restructuring in relation to ownership resources commitments and the implications for performance in terms of profitability during a systemic transformation process from a command to a market economy.

The various sections in this study stress, in parallel with the impact of the conditions existing in the Balkans as well as in the Greek market, and the importance of the market characteristics in the Balkans, i.e. the structural reforms, as a determinant of Greek FDI in the comparatively less attractive Balkan countries. The choice of Greece was based on the fact that Greece plays an important role acting as a gateway for the flow of foreign investment to the region, as well as being a major investor in the region, given its geographical position.

This research is about economies and companies in transition. The term transition will be used in two contexts. On the one hand, to understand the structural transformation of the Balkan economies, and on the other, to understand the more evolutionary changes adopted by the Greek companies in their effort to respond to the logic of full economic integration in the Balkan region. The need for understanding this transition compels an examination of the challenges faced by the economies, and companies in question. The outcomes of these diverse expectations are explored, using the evidence in this company-level study on determinants and performance of Greek FDI in the Balkans. It investigates FDI in the period from 1990 to 1999. This was the period of most radical economic changes in the region, when new economic systems were emerging, radical policies for economic stabilisation were implemented and the economies took many big steps towards systematic transformation.

CHAPTER ONE

Introduction to the Purpose and Main Themes of the Study

1.1 Introduction

Since the Balkan countries cut from communism a new geographical space for business activities emerged.[1] Economic conditions have undergone radical changes reformulating the business relationships of the Balkan countries with foreign companies. The significance of the Balkan markets has gained increasing interest among scholars to understand the nature of these economies and their new business opportunities.[2]

The Balkan region has been subjected to at least five powerful external forces in history, which have affected their economic relations with each other. First, the region was dominated by the Ottoman Empire for 500 years. Second, the WWII followed by the collapse of the international trade and payments systems in the interwar period. Third, the imposition of war- time controlled economies in the WWII followed by the divisions of territory at Yalta, the division of the Iron Curtain. Fourth is the disintegration of the former Yugoslavia. Fifth, the sudden collapse of the communist system and equally sudden intensification of linkages with the EU. Greece was an exception in the third and fifth stages, having liberalised in the 1950s and in the1960s having begun integration with the EU culminating in membership in the 1980s (Jackson 2001:41).

The Balkan countries experienced an overall transformation of their societies (Veremis and Daianu 2001). In the attempt to set up market economies, much attention was devoted to measures such as macro-stabilisation, inflation, privatisation, price and trade

[1] For the purpose of this research, the Balkan region consists the following countries: Albania, Bulgaria, FYROM, Romania and Yugoslavia.

[2] The socialist legacy as well as the recent transformations in these countries presents an institutional environment that is very different from a typical Western economy. Foreign companies should therefore be aware of the different consequences strategic measures may have on performance, than they would have in a stable economic environment, as the success of economic transformation depends on the ability of companies to adjust to the changing business environment.

liberalisation.[3] It is evident that research in these fields is necessary in order to understand the structural changes. However, the lack of microeconomic research reflects a more general neglect of the region's economies.

Until 1989, the Balkans under a command market system had small volumes of trade with the world economy. The small volumes of trade with other countries were conducted on the basis of counter- trade negotiated with state- trade monopolies (Neale and Shipley 1990). The revolutions of the 1990s brought dramatic changes for existing business relationships and opened major business opportunities. These abrupt changes can be regarded as turning points that change the way Greek companies perceive these markets, which they once considered out of reach.[4]

The beginning of the 1990s gave rise to a number of questions concerning the impact of changing *economic geography* on the economic performance and outcomes on both sides of the East- West frontier. In this new setting, several *border conditions* are changing. Germany for example is transformed from the eastern border to the central part of the new Europe. While Greece, the most peripheral member of the EU finds neighbours to trade with after decades of isolation. The Balkans seems to provide Greece with opportunities for rapid expansion of its trade. Greek companies were quick to position themselves in the Balkan markets. This is illustrated by the acceleration of Greek direct investment and reorientation in the pattern of international trade between Greece, the EU and its northern neighbours. However, companies operating in the region faced a distinct institutional framework, which predetermined the strategic opportunities for businesses. That has created challenges for Greek companies.

---

[3] For more details, see the studies of Petrakos and Totev (2000), Gligorov (1999, 2000), Gligorov et al. (1999), Hunya (1997, 2000), Dobrinsky (1997, 2000), Dobrinsky et al. (1994).

[4] The current process of Greek- Balkan integration is an example of the re- emergence of strong trade linkages between two groups of economies, which, albeit geographically close to each other, had no FDI links over a forty- year period. The rapid and deep liberalisation of external relations after 1989 has led to a trade- investment re- orientation and to a rapid build- up of pressures towards a new pattern of production in accordance with western market pressures.

1.2 Challenges Faced by the Balkan Economies

The Central and Eastern European (CEE) countries have to a great extent transformed their economic systems and become similar to other medium- income market economies, while progress has been slower in the Balkans. The turn of the last decade was a milestone in the economic turnaround in all the Balkan countries. Nevertheless, both the starting point for the reforms and the speed of the transition has differed considerably between countries in the region. The move to a market economy has not been quick and straight- forward. There is strong diversity in the progress and shape of the transition and in the timing and form of economic recovery. In the Balkans, the economic changes have been more erratic and are subject to a high degree of political uncertainty. These differences in economic reform reflected in the progress of economic transition.

The differences between Greece and its northern neighbours should also be identified. First, Greece has developed in accordance with market principles and democratic ideals of the EU. Second, Greece has been a full member of the EU since 1981. It has benefited from the subsidy programmes of the EU and has taken steps to conform to the rules and regulations of the EU. The Balkan states are preparing and positioning themselves for joining the EU. They have all entered into some type of formal trading arrangement with the EU. Some countries have even made formal applications for membership. Third, Greece and its Balkan neighbours find themselves presently at different levels of economic development. Differences manifest in terms of level of economic development, structure of production, per capita income and purchasing power.

The collapse of communism in the Balkans has left significant economic challenges in its wake. A system, built and consolidated for more than half a century, collapsed and has given way to a completely new reality for the states. The first challenge is the removal of the centralised economic system that allocates resources by command and set prices without reference to market forces.[5] The second challenge involves the re-capitalisation of the national industrial base. The establishment and consolidation of macroeconomic stability, the implementation of trade liberalisation and improvement in access to EU and regional markets will offer new opportunities for higher growth and employment. Seizing these opportunities will require a dynamic private sector, willing to invest and produce in the Balkans, and the mobilisation of significant FDI.

Table 1. Basic Economic Indicators of the Balkan Countries and Greece

Country	Year	Real GDP Growth (%)	GDP Index (1990= 100)	Unemployment Rate (%)	Inflation (%)
Albania	1991	-27.1	72.9	8.6	36.0
	1995	13.3	85.9	16.9	6.0
	2000	7.8	184.1	18.4	4.2
Bulgaria	1991	-11.7	88.3	11.1	333.5
	1995	2.1	83.8	11.1	62.1
	2000	5.9	71.0	18.14	11.4
Greece	1991	3.1	103.1	7.7	19.5
	1995	2.0	106.9	10.0	8.9
	2000	4.3	347.7	11.3	3.1
FYROM	1991	-9.8	90.2	23.5	115.0
	1995	-1.2	69.0	37.7	15.9
	2000	5.1	96.0	32.1	6.0
Romania	1991	-12.9	87.1	n.a.	174.5
	1995	7.1	89.7	9.5	10.5
	2000	1.6	75.0	10.5	40.7
Yugoslavia	1991	-14.2	85.8	21.4	121.0
	1995	6.1	47.6	24.6	78.6
	2000	10.7	42.0	40.5	85.6

Source: EBRD Transition Reports, Various issues, National Bank of Greece.

Privatisation remains one of the key elements of structural reform. Rapid privatisation of companies will not only help them to improve their competitiveness and productivity levels, but most importantly will create a private sector that is the backbone of a nascent

[5] The transition is a fundamental reordering of the economic sphere. The expectation is that the market will make the system more efficient and more rational. However, this belief ignores a simple fact; the market in the West developed from within. The market mechanism was called upon to sort out emerging disequilibria in the commodity, financial and labour supplies when these were expanding to satisfy diversified and increased needs. The markets in the Balkans are expected to transform complex and

market economy. Moreover, privatisation will be a major tool for the development of capital markets and the inflow of FDI that brings to the host economies much needed capital, advanced technology and managerial expertise.

The experience of the Balkans demonstrates that macroeconomic stabilisation is not sufficient to guarantee a framework for the reform process. Since structural reforms and privatisation lag in progress, the new private economic agents continue to face distorted incentives and weak discipline. This combined with ineffective institutions and weak financial supervision, may end in an economic collapse across the Balkan region, as was the case of Bulgaria in 1996. It is therefore important that the Balkan governments will pursue their commitment to structural reforms and privatisation.

Despite early expectations for fast recovery and growth, the market driven economic environment seems to follow until recently a rather disappointing path. It shows that market driven reforms has generated strong pressures, which are clearly observed in the Balkans. The last decade of transition that we witnessed in the Balkans has left many unanswered questions without a clear, straightforward answer.

1.3 A Historic Reference to the Greek Economic Activity in the Balkans

For a number of Balkan countries, the Greeks have merely resumed their centuries-long entrepreneurial activity there, after a break of around eighty years. During the 19th century, Greek communities were still living in what are today Albania, Bulgaria, Romania and these communities were engaged in commercial activities. However, the violence unleashed by the Balkan wars (1912-13), followed by the two World Wars and the Cold War (1945-89) changed and divided the region. However, the end of the Cold War in 1989 and the subsequent break-up of the former Soviet Union, created conditions suitable to the re-emergence and resumption of Greek international business in that area.

---

developed economies based on centralised planning into Western type economic structures. This, if nothing else, raises questions regarding the capability of the market to carry out the transition process.

The process started at a slow pace during 1989-91, but accelerated after 1992, ending eighty years of isolation and treating it as a mere intermission.

This historical dimension is considered by a number of Greek economists as the main determinant of present Greek FDI and trading activity in that area, with the argument that history repeats itself. Consequently, Katseli (1994) points out that from the 17th century Salonika was the biggest commercial centre of the Balkans and Greek commercial networks united the markets of the Balkans, with those of Constantinople and the Black Sea basin with Italy and the south of France. Almost all the transactions in Balkan trade during the 18th and 19th centuries were made in the Greek language. Katseli (1994) adds that in 1815 Greeks conducted three quarters of the French trade in the Eastern Mediterranean.

Karafotakis (1994) too, shares the same view pointing out that at the end of the 19th century, a partial retreat of Greek positions in the Transbalkan trade is observed as an outcome of the initial nationalistic targets from all Balkan countries. The situation worsened after the Balkan wars. However, it showed some stability in the inter-war period. Babanasis (1997) argues that until the end of the 19th century, the major trading partners of Greece were the Balkans countries. In 1887, 58.3% of Greek imports and 12.3% of Greek exports were with those countries, while in 1912 the figures were 40.2% and 17.8% respectively. The Greeks in Russia despite their small number (around 10,000), had approximately 160 entrepreneurs, who controlled trade and shipping activities in the Black Sea region, with the assistance of the Greek communities of Romania and Bulgaria, so much so that the Russians and the British called them the *kings of wheat*.

These considerations clearly indicate that there may be a fountain of good will towards Greek entrepreneurial activity in the region. As mentioned above this is an area where the Greeks have extended economically during their long history and strong ties of friendship with the various peoples have been established over the centuries. Therefore, it is natural for Greece to consider this region as its natural hinterland. It would appear that the commercial links that the old thriving Greek communities of merchants had established with the locals were being resumed and re-established by the Greek entrepreneurs in the last twelve years.

Greece and its Balkan neighbours have followed a different trajectory in arriving at their present predicament. In spite of their differences, history has brought these countries together again, imposing on them a symbiotic relationship the type of which was absent before 1989. It is this new reality that lends itself to a rethinking of each and every Balkan country and how it stands to be affected by the prospects of future collaboration both on a regional and on continental level.

1.4 The Research Problem and the Contributions of the Study

Much of the analysis in the Balkans has focused upon macroeconomic developments because most progress has occurred in this area. This study will focuses on determinants of investment decision and characteristics of FDI projects. We define FDI as a strategic movement of companies tending to exploit specific advantages more profitably outside their domestic market (Dunning 1981).[6]

The **principal objective** of this research is to provide a theoretical and empirical framework for analysing the business activity of Greek companies in the Balkans. The theoretical part will present a framework for explaining the strategic aspects of the internationalisation process of the Greek companies in the Balkans, by integrating the resource based theoretical approach, which examines inter- alia ownership resource requirements, and the transaction costs approach, which involves examining variables

[6] **Definition:** Foreign Direct Investment: is a category of international investment made by a resident entity in one economy (direct investor) with the objective of establishing a lasting interest in an enterprise resident in an economy other than that of the investor (direct investment enterprise) Direct investment enterprise is an incorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise or an unincorporated enterprise in which a foreign investor has equivalent ownership. Ownership of 10 per cent of the ordinary shares or voting stock is the guideline for determining the existence of a direct investment relationship". (OECD 2002)

relating to internalisation control and resources costs. This theoretical framework is then applied to the empirical examination of various aspects of the internationalisation process of Greek companies in the Balkans. These break down into three main areas: the internationalisation decision itself; the entry mode strategies; company restructuring in relation to ownership resources commitments and the implications for performance in terms of profitability.

The above issues are concerned with the economic determinants of FDI. The aim is to understand not only why companies invested in the region, but also why many others did not invest, based on an analysis of their ownership advantages. To analyse the above issues, we have selected five host countries so to reflect a variation in both the host country policy environment as well as the observed FDI during the process of transition. These are Albania, Bulgaria, FYROM, Romania, and Yugoslavia.

The economic changes that occur in the Balkans and their growing importance in the transition process of the region's economies has necessitated the need for meaningful research to be conducted into this relatively new area of international business studies. More precisely, several basic questions need to be asked and answered. These questions include: *Why do companies invest? How do they invest? What means do these companies employ to evaluate the performance of their investments and subsequently what levels of performance these companies have achieved?* Yet, despite a few previous qualitative research efforts in the Balkan area, our understanding of the activities of Greek companies operating in the Balkans via FDI is still very limited.[7]

[7] To understand the interaction between investors and the local economy, it is first necessary to understand the Greek investors as such. What are they doing in the region, why are they doing it and which factors influencing what they are doing. These questions have motivated this study because transition economists need to understand the motives, strategies and determinants of FDI before engaging in impact analysis. Some studies modelling impact have made very simplified assumptions about FDI and as a result reached peculiar conclusions. These studies have been published in the Greek press. However, their inappropriate research methodology and data collection makes them very simplistic (Arvanitides 1999, Boukogiannis 1994, Drakos 1994, Sarantopoulos 1994, Lambrou 1996, Pepelasis 1996, Seimanidi 1996). Thus, better models can only build on a better understanding of international business.

This research is about economies and companies in transition.[8] The need for understanding this transition compels an examination of the challenges faced by the economies, and companies in question. The outcomes of these diverse expectations are explored, using the evidence in this company- level study on determinants and performance of Greek FDI in the Balkans. It investigates FDI in the period from 1989 to 1999. This was the period of most radical economic changes in the region. When new economic systems were emerging, radical policies for economic stabilisation were implemented and the economies took many steps towards systematic transformation.

1.5 Structure and Methods of Analysis

Part one gives an overview of the issues and outlines the research questions. Part two develops the theoretical basis for the empirical analysis in part three. Part four concludes. The methods of inquiry change for each stage of the analysis; i.e. the entry strategies, ownership strategies, operations, and performance of Greek companies in the Balkan markets are analysed and explained on the basis of strategic aspects (i) of Dunning's eclectic framework, (ii) the transaction costs theory and (iii) the resource-based approach. These approaches have been thoroughly analysed by scholars and have a long and rich history in international business research.[9] Since this research covers a new and under-researched area, the basic facts on the local environment and on recent trends in FDI are presented first. A broad base population has been selected for this analysis. The database for this study was developed with a questionnaire survey of a 'convenient' sample of companies, containing information on the company specific data.

[8] The term transition will be used in two contexts. On the one hand, to understand the structural transformation of the Balkans economies, and on the other, to understand the more evolutionary changes adopted by Greek companies in their effort to respond to the logic of full economic integration in the Balkan region. In the first case, we have radical discontinuity and in the second, a notable adaptation. In both cases, the transition process seems to be inevitable.

[9] See Gatignon and Anderson (1988), Eramilli and Rao (1993), Caves (1982), Dunning and Rugman (1985), Dunning (1988), Rugman and Verbeke (1992).

Chapter two provides a review of the literature and the main theoretical themes upon which our empirical analysis will be based. Chapter three provides a synopsis of the Balkan business environment and FDI trends. It also provides an analysis of the privatisation process and quotes from the experience of Greek companies participating in the privatisation process in the Balkans.[10] Chapter four and five describe the research methodology employed in this study. The multitude of analytical approaches by economists on determinants of FDI is reviewed in chapter six. Decisions concerning involvement or non- involvement in a country, which are part of the decision process, are also presented here.

In chapter seven, the differences between investors and non- investors are analysed. Active companies are investigated further to distinguish investors from companies with trade or FDI activity. The ownership specific advantages approach as defined by Dunning has been selected as the analytical framework. The application in the empirical investigation provides insights that are hoped to advance the underlying theory. The analysis of the FDI decision- making process is based on an econometric analysis of the ownership specific advantages of the Greek companies.

In chapter eight an analysis of the entry mode decision- making process is presented, along with the conceptual framework for the choice of ownership structure. The analysis of the entry mode decision- making process is based on an econometric analysis of the ownership specific advantages of the Greek companies. Chapter nine discuss the challenges of company transformation in the Balkans and explores the adjustment measures taken by companies according to their mode of entry. Chapter ten examines

[10] We believe that chapter three should not be viewed in isolation form the results presented in the second and main part of our research, that is the analysis of the Greek FDI in these markets. The reader after reviewing the first part should be better able to understand the economic environment of these countries, and what Greek investors are looking for. Naturally, the first question that comes to the reader's mind concerns the economic performance of the Balkans in the post- 1989 period. In this respect, it is important to analyse and compare the Balkan economies to each other and where possible to the CEE economies in order to make an evaluation of the characteristics of the on going transition process. Overall, the economic performance of the Balkans in the 1990s shows some similarities and differences that we think are important to record them, in a consistent manner.

the differences in the operating profitability of each entry mode. Restructuring factors affecting performance are discussed, by examining the causality of restructuring strategy and performance of each ownership structure. The fourth part of this research is the concluding chapter. It presents an interpretation of the research findings and their limitations.

1.6 Conclusions

Since the Balkan countries began their transition from communism to a market economy, a new geographical space for business activities emerged for the Greek companies. Economic conditions have undergone radical changes that have reformulated business relationships with Greek companies. The economic changes that occur in the Balkans and their growing importance in the transition process of the region's economies has necessitated the need for meaningful research to be conducted into this relatively new area of international business studies.

Few studies have provided empirical evidence or explored the implications concerning the issues associated with both determinants and performance of entry strategy in international markets. This study's main purpose is to contribute towards internationalisation theory by explaining the strategic aspects of internationalisation and use this framework to explain the entry strategies of Greek companies entering the emerging markets of Balkans.

CHAPTER TWO

The Literature Review

2.1 Introduction

Companies decide to invest in a foreign country, and compete with host country companies, if they possess specific assets (that can earn economic rents that are high enough to counter the higher cost of servicing these markets) that can be employed elsewhere. Dunning (1993) integrated the concept of company specific assets into his eclectic OLI paradigm. He calls them ownership advantages, and adopts a very broad definition including all sources of competitive advantage. Along with locational advantages and internalisation incentives, they are the pre-condition to establish foreign production. This explanation of FDI as a function of company specific or ownership advantages is related to the resource based view of the company in the literature[1] (Penrose 1959, Wernerfelt 1984, Conner 1991).

Since Hymer (1960, 1976) and Kindleberger (1969) many sources of company specific advantages have been analysed. In order to induce FDI, the advantage has to be both transferable within the company and specific to the company. Thus companies have to possess some degree of monopolistic power. Relevant corporate assets include physical assets, intellectual property rights and intangible assets. In terms of Prahalad and Hamel (1990), competitive advantages arise from *core competencies* such as technological know-how. Advances of common governance arise from economies of scale on company level. Operating in a foreign environment exposes companies to challenges that stimulate the development of specific competencies and learning opportunities, which are not available to purely national companies (Bartlett and Ghoshal 1989).

[1] In particular, the resource-based view provides insights in the analysis of strengths and weaknesses as well as the development of company resources and capabilities as a basis for taking advantage of market opportunities (Barney 1986, 1991, Dierickx and Cool 1989, Wernerfelt 1984).

According to Dunning (1993) the theory of MNE activity stands at the intersection between a macroeconomic theory of international trade and a microeconomic theory of the company. It is therefore difficult to analyse the process of Greek FDI in the Balkans under a single theoretical framework.

We aim to identify under what circumstances which entry mode implemented by Greek companies in the Balkans is the most efficient choice in the long run. By analysing the choice of entry of companies in the Balkans, we examine the long- run return on their investment in an entry mode, adjusted for risk.[2] Hence, we address the impact of an entry mode on both the returns on investment and long- term horizon.

Business analysts and organisational theorists tried to identify the main reasons for FDI. Others focused on the individual company to explain existence of FDI. Main contributors to the latter are Buckley, Casson, Dunning and Rugman. The second stream investigates why companies of one nationality are more appropriate to survive in foreign markets than companies originally located in those markets. It also investigates why the foreign companies are interested in keeping control over subsidiaries in foreign countries. Hymer (1960) tried to explain the activities of companies outside their national borders mainly proclaimed this explanation.[3]

The Internalisation Theory is said to be the modern theory of the MNE. It illustrates that the MNE uses its internal markets to produce and distribute products in an efficient manner in situations where a regular market fails to operate. It may also be considered as a general theory in so far as it is able to predict situations in which companies choose to

---

[2] The attractiveness of a market has been characterised in terms of its market potential and investment risk. Market potential is an important determinant of overseas investment. The investment risk in a host country reflects the uncertainty over the economic and political conditions, which affect the survival and profitability of a company (Root 1987, Stopford and Wells 1972).

[3] A shortcoming of Hymer's theory was that he did not focus on transaction costs, which are exogenous and the MNE reacts with creating an internal market as a substitute for either a missing regular- external- market or to replace more expensive transactions. Nevertheless, Hymer's theory prepared the ground for all coming theories by recognising the advantages of MNE to use internal markets across nations.

internalise foreign markets.[4] But it may be better described as a paradigm rather than a theory, because actions of MNE vary according to the different kinds of market failure. In contrast to the Internalisation Theory, Dunning's Eclectic Paradigm is not a theory of the MNE itself. It is rather a theory of the activities of companies engaging in international investments. Dunning was the first to put the concept of the eclectic paradigm of international production forward.

Theoretical justification for the contention that some entry modes should consistently outperform others is based on previous entry mode research in the contingency tradition. Dunning's (1988) eclectic theory of international production is used as a general point of departure for developing the argument that mode selection has an impact on subsidiary performance. This research will concern with three ownership- based modes. Of these, greenfield and acquisition are wholly- owned modes, and the third, joint ventures, is characterised by shared ownership between Greek and host- country partners. A model of performance will be developed from entry mode research, comparing each pair of these modes in turn, and using the ownership- resource requirements and internalisation-control costs concepts from the Eclectic Theory.

In the 1990s, the role of FDI in transitional economies has renewed interest in the question as to why some modes of entry offer lower costs than others, and why certain circumstances seem to favour certain modes over others. Linking all these together generates a high degree of complexity. Although the eclectic theory has been regularly revised to accommodate the changing foci of applied research, it is too much of a paradigm or framework and too little of a model to provide detailed advice on research design (Dunning 1980).

[4] Internalisation theory explains the emergence of companies from the failure of markets. Its roots are in the transaction cost approach initiated by Coase (1937) but it has largely been developed independently of the work on transaction cost by Williamson (1975, 1981). Early contributions are Caves (1971), Buckley and Casson (1976), McManus (1972), Swedenborg (1979), Rugman (1981) and Hennart (1982).

The internationalisation of companies is a topic, which has been studied from many different disciplines.[5] This present research focuses on international business, in which several explanations of the internationalisation of the companies can be distinguished. The numerous disciplines described, can be divided into two broad groups: static and dynamic approaches. Given the aim of the research, namely to investigate and evaluate (i) the factors that determine the FDI activity of Greek companies in the Balkans, (ii) the choice between different entry modes and (iii) the resulted performance, based on the cost and benefits trade off, we believe that static approaches are appropriate for use.[6]

2.2 The Scope of the Company: The Internalisation Theory

Probably the most commonly accepted theory that provides an economic rationale for the existence of the MNE today is the internalisation theory developed by Buckley and Casson (1976), Caves (1982), and Casson (1987).[7] Bringing transactions under the control of the company in international operations rather than the market is what has become known as internalisation. It assumes that when market is internalised the collective efficiency of the company as a group is increased. The direct co-ordination of transactions leads to economies of scale and it helps reduce the costs associated with opportunism, bounded rationality and uncertainty (Caves 1982).

Building on Hymer's idea of company specific advantage, the internalisation theory assumes that a company invests abroad on the basis of a specific asset under its control

---

[5] The limitations of the internationalisation process models are their weak delineation of theoretical boundaries that is the underlying assumptions and scope of the models, their the weak explanatory power, and their the insufficient congruence between the theoretical and operational level (Andersson 1993).

[6] Static approaches compare different states instead of processes, and try to find the best solution for a certain state. Most of these static approaches evaluate company's involvement in foreign countries based on their costs and benefits. Examples of static approaches are: Hymer's theory (Hymer 1960, 1976), transaction cost economics (Hennart 1982, Teece 1981, Williamson 1975), internalisation theory (Buckley and Casson 1976, Rugman 1981), Dunning's eclectic paradigm (1981), the strategic behaviour approach (Kogut 1988), the resource- based approach (Wernerfelt 1984) and the eclectic theory of the choice of the international entry mode (Hill et al. 1990).

[7] The theory applies the principle of transaction cost (Coase 1937, Williamson 1979) to explain the rational for the existence of a MNE as an institution making FDI on the basis of market information and vertical integration.

that gives the company an advantage over those who do not have such an asset.[8] Due to uncertainty involved in foreign markets, the theory assumes that the cost of an administered exchange will be lower than the costs of market exchange. This theory rests on two general axioms. First, companies choose the least cost location for each activity they perform.[9] Second, companies grow by internalising markets up to the point where the benefits of further internalisation are outweighed by the costs.[10]

According to the internalisation theory, MNEs always avoid joint ventures since they are inferior to wholly owned subsidiaries, which allow the MNE to maximise the returns on ownership specific advantages (Caves 1982). Joint ventures are fraught with danger for the MNE, as they may negatively affect the MNE's company specific advantages (Rugman 1982). The benefits of cooperation may never offset the strategic risks and transaction costs. Internalisation theory, thus, cannot explain joint ventures (Dunning, 1989, Parry 1985).

The 'evolutionary' approach of internalisation is based on data gathered from Swedish companies in their later stages of FDI. Two elements of gradual expansion are central to the evolutionary approach of internationalisation. First, market commitment and second market knowledge. First companies are expected to expand internationally through an

---

[8] Rugman and Verbeke (1993) proposed a modified internalisation theory, which is based on concepts combining the field of strategic management with international business (Bartlett and Ghoshal 1989, Doz 1986, Ghosal 1987). Rugman and Verbeke made an explicit distinction between company specific advantages and country specific advantages, whereby the former can be both location bound and non-location bound.

9 The first axiom did not receive the attention it deserved. Rugman (1981) minimised the relevance of location- specific variables in internationalisation theory by including spatial cost savings as a company-specific variable. Buckley (1983) criticized this point of view by referring to the role the location choice and the non- traded inputs play in the competitive positioning and growth pattern of companies.

[10] In its most general sense, the second axiom can be interpreted as being tautological, or as Buckley (1983) formulated eloquently: *a concept in search of a theory*. However, additional assumptions about transaction costs for particular products and for trade between particular locations were specified (Casson 1982). For example, the market for know- how is imperfect, long- term contracts are difficult to enforce, and tariffs and other financial burdens cause internal transfer pricing. The company is an alternative to a market, as the internal market is used to produce and distribute goods and services efficiently in cases of external market failures (Rugman 1982). The MNE arises when markets across national borders are internalised. Markets that are often internalised are intermediate markets with imperfections, such as markets for knowledge (Buckley and Casson 1976).

establishment chain (Johanson and Wiedersheim- Paul 1975, Johanson and Vahlne 1977). Second, companies are assumed to expand in increasingly psychically distant countries, in line with growing international experience and declining risks (Johanson and Vahlne 1977).[11] The interplay between the two aspects determines the internationalisation decisions companies take.

The views of researchers of internalisation theory do not differ in substance from those of transaction costs economists, but in emphasis. Whereas Williamson focus primarily on market failure due to lock- in effects arising from asset specificity (as these are discussed in the transaction cost analysis of FDI section), internalisation theory focuses on market failure in markets for information. Rugman (1981, 1985) and Hennart (1995) argue that internalisation is a sufficient explanation for the existence of international business activities. This view contrasts with Dunning's paradigm where all three conditions (ownership, location and internalisation) are necessary to explain FDI.

Internalisation theory, like Hymer's theory, treats all foreign investments as an expression of the exploitation of a company specific advantage on a foreign market, but it does not incorporate strategic issues. Internalisation theory provided the wholly owned subsidiary as the only solution to the problem of imperfect international markets, while there are a number of other modes which companies can adopt in international markets such as joint ventures. It also ignores the cumulative nature of activities gained by a company in relation to other companies within the industry or national markets (Mattson and Johanson 1987).

2.3 Dunning's Eclectic Paradigm Theory

The idea of formulating a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign

[11] Psychic distance is defined as *factors that prevent or disturb the flow of information between firms and markets* (Johanson and Wiedersheim- Paul 1975).

investments by companies and the growth of such investments was presented in the work of Dunning (1977) in what has come to be known as the eclectic framework.[12] The framework tries to explain the activities of companies by drawing from several strands of economic theory, mainly international economics and location theory. The basic premise of the framework is that FDI is undertaken if three conditions are met simultaneously. If not, exporting or licensing may be superior strategies.

Based on the acronyms of the three components, this approach is commonly known as the OLI paradigm. First, the investing company needs ownership advantages (O) that are specific assets to obtain a competitive advantage over local competitors. They include property rights and intangible assets; named Oa advantages, as well as advantages arising from common governance, named Ot advantages.[13] Oa advantages include advantages due to abilities that facilitate the generation of new assets, especially knowledge. Ot advantages are capabilities of organising Oa advantages with complementary assets. They include those of branch plants of established companies over de novo companies and those arising specifically from multinationality.[14] Second, the host country must possess locational advantages (L), which include factor cost

---

[12] Dunning's paradigm is not faultless. Grosee and Berham (1992) consider it a good summary of the several determinants of FDI. Graham (1998) says it is simply a taxonomy and not a behavioural model. Rugman (1985) argues that only the internalisation advantages are relevant. Markusen (1995) points out that the paradigm does not consider alternative choices, such as joint ventures. Buckley and Casson (1998) stressing its static nature, say that it is not a good instrument to address the crucial issue of the 1990s, the high degree of volatility in the international business environment.

[13] Dunning (1993) made a distinction between ownership specific advantages (Oa) and transaction advantages (Ot). Oa corresponds with the type of ownership specific advantages, which stem from the exclusive possession of, or access to, particular income- generating assets, and Ot with the other two ownership- specific advantages. The Oa advantages involve the ownership of specific assets by MNE, which other companies do not own. Given the notion that the differences between companies' assets can only occur in a situation of structural market imperfections, the Oa advantages are similar to Hymer's (1960, 1976) monopolistic advantages. The Ot advantages include the ability of companies to capture the transactional benefits from the common governance of multiple and geographically dispersed activities.

[14] The uniqueness of ownership advantages and the degree of delayability they confer will depend in part upon the structure of the markets in which the company competes and its competitive position vis-à-vis industry rivals. Conditions in the host country may also make FDI easier or harder, depending upon the company's motives for investment. In the case of market- seeking FDI, cost advantages of local production may be vital for export to other markets. Local resources may be unique or scarce, giving an edge to early investors with resource- seeking motivations. The ability to undertake FDI is contingent on both the strength of a company's ownership advantages and the extent of locational early mover advantages (Rivoli and Salorio 1996).

advantages, proximity to the market, the existing economic structure, and the legal, and political frameworks.[15] Third, internalisation incentives (I) must make it more efficient for the companies to use their competitive advantage by selling components internally rather than in the market place. These advantages may arise from market failure as discussed in the transaction cost and internalisation literature (Caves 1971, Buckley and Casson 1976) but may also arise because of distortions in the regulatory environment.[16]

Therefore, in order for FDI to take place, the company must have ownership and internalisation advantages, and a foreign country must have location advantages over the company's home country. The eclectic paradigm has contributed to making the internalisation operational by adding location factors, thus assisting the assimilation of the theory of FDI into international economics. The framework was also the first to incorporate contributions from classical trade theories into FDI. With this framework, Dunning (1981) was able to explain the reasons and differences in the industrial pattern of the FDI and to evaluate the significance of ownership and location variables.[17]

The general nature of the paradigm makes it a very powerful tool for descriptive and classificatory analysis of foreign investment, but its general nature limits its predictive power to serve as an explanatory theory. The contribution of the internalisation model to

[15] In addition to ownership specific advantages, location specific advantages are essential in determining which companies will engage in cross- border value adding activities. Although the decision of where to set up a production facility is treated separately from the other two advantages, it cannot be seen as an independent decision. These location- specific advantages include, for instance, low transport costs, the availability of resource endowments, infrastructure, economic and political stability, and low input prices.

[16] The eclectic paradigm recognises that structural and transaction cost market imperfections are important in explaining MNE. Companies have ownership- specific advantages, which can be more profitability exploited outside the companies' domestic markets, and internalisation of these advantages obtains the highest value (Dunning 1981, 1988, Teece 1986). Thus, the last strand of the OLI paradigm comprises the internalisation advantages that MNE have in transferring assets within their organisations instead of via the market, because of market failures. The greater the perceived costs of transactional market failure the more likely it will be that MNE exploit their ownership- specific advantages within the company. Some possible internalisation incentive advantages are high search and negotiating costs, and possible lock-in situations and high costs of legal enforcement (Buckley and Casson 1988, and Williamson 1985).

[17] This framework suggests that countries with low labour costs and natural resources tend to have above average inward investment because of their location advantages (Jeon 1992). On the contrary, rich industrialised countries have above average FDI, because of their factor endowments, which favour mobile ownership advantages

the literature on FDI lies in its explanation of the choice of markets that companies make and the degree of the companies' involvement in a specific country- market. Resource commitment and experience have been accepted as important factors for the explanation of international business behaviour as a process. Critics have, however, found the model to be too deterministic (Reid 1981, Turnbull 1987).

Dunning's theories based on market imperfections offer explanations of the *why*, *where*, and *who* of FDI (Dunning and Rugman 1985). Dunning (1993) maintains that the eclectic paradigm is not a theory of MNE or FDI per se, but rather an organisational framework for examining the activities of companies engaged in cross- border activities. It prescribes a conceptual framework for what is rather what should be. However, the paradigm only describes the *status quo* of international production. Dunning assumes in his paradigm that there are two kinds of market failures. The first is that of structural market failure which forces companies to gain and sustain control over their property rights. The second is the failure of intermediate product markets to transact goods at lower net costs than those an organisation might have to incur via internalisation.

2.4 Transaction Cost Analysis of Foreign Direct Investment

Williamson (1975) uses the concept of transaction cost market imperfections in his analytical framework.[18] A transaction is defined as *the transfer of a good or service across a technologically separable interface* (Williamson 1975). A *most efficient* governance structure means that the total production and transaction costs are, in the long run, less than those of any governance structure. Production costs include the direct and indirect costs of making the products, such as the costs of labour. Transaction costs

[18] Williamson builds on Coase (1937) who rationalised the existence of companies and specified the conditions of market failure. Transaction cost economics elaborates Coase's view focusing on the most efficient governance structure for a given type of transaction.

are the costs connected with finding a contractual partner, specifying a contract, and securing that the ex- ante defined goals will be met ex post (Williamson 1975).[19]

Different combinations of the three characteristics of transactions will lead to different optimal governance structures. Companies prefer to internalise transactions (creating a wholly- owned subsidiary or in Williamsonian terms, a hierarchy) in cases of high uncertainty, and recurrent transactions. This governance structure is the best safeguard against opportunistic behaviour. In a hierarchy, authority and rules can be used to ensure that employees will not behave in an opportunistic way (Williamson 1975, 1985).

Since the work of Williamson, transaction cost economics, have developed in many directions.[20] In an international context it has been advanced simultaneously, but largely independently, as internalisation theory following Caves (1971), Buckley and Casson (1976), Rugman (1981), Hennart (1982), Teece (1986).[21] Transaction cost economics treats decisions on engaging in a transaction and its internalisation as distinct, therefore is a static approach. Some dynamic approaches to transaction costs have aspired to overcome this limitation.[22]

---

[19] These costs are determined by three characteristics of transactions (asset specificity, uncertainty-complexity, and frequency), given two assumptions about human behaviour. First, bounded rationality and second, opportunism (Williamson 1975).

[20] Initially, transaction cost economics focused on explaining why and when a particular governance structure is chosen, neglecting the international context. Williamson (1992) admits that his analysis of MNE is brief and incomplete.

[21] Teece (1986) asserted that MNEs prefer to internalise certain transactions to reduce the effects of opportunistic behaviour, which can be very great in an international environment.

[22] Buckley (1988), Buckley and Casson (1985) incorporate dynamic aspects of corporate expansion and strategic actions, which are taken not to overcome market failure, but to create or exploit it. Internalisation incentives arising from strategic positioning have been incorporated in one internalisation theory. Langlois' (1992) dynamic view of transaction costs sees boundaries of companies entirely determined by capabilities of the company rather than market failure. Kogut and Zander (1995) depart from the market-failure approach of transaction cost arguing that the transfer of tacit knowledge explains internalisation. Markets are not considered to be a feasible alternative because of the need for an organisational mode to transfer tacit knowledge. Thus the creation, accumulation and transfer of tacit know- how determine the evolutionary growth of companies.

Companies organise their cross- border operations as international trade, or equity investment as joint or wholly owned ventures.[23] These modes provide varying degrees of control over the local operations. These models have been analysed with the transaction cost approach (Anderson and Gatignon 1986, Hennart 1991) as well as broader eclectic frameworks (Hill et al. 1990, Bell et al. 1997).

Transaction costs are the unobservable costs of using the price mechanism. They appear in many forms, including directly attributable costs such as costs of negotiating and contributing a separate contract for each transaction and discovering what the relevant prices are (Coase 1937). They also appear as opportunity costs of a sub- optimal factor allocation, for example due to time lags or acceptance of a second best offer as expected search costs exceed expected efficiency gains. In other words, they are the costs arising from the loss of efficiency in factor allocation due to less than perfect markets.

The trade- off between these costs of the market and of internal organisation determines the optimal organisational from for a given transaction, and thus the boundaries of the company. This analysis is concerned with the choice of organisational form in an international context. A model of international transaction cost should explain the internalisation of transactions between business units located in different countries, while considering the costs of trans- border transactions and of operating in different economic environments. The choice of organisational form for a transaction depends on the transaction cost of alternative modes. In the international context, the trade- off is between the costs of using international markets for goods and services and the costs of the internal organisation of a FDI project. The costs of organising a transaction, both

[23] Joint ventures only exist if the markets for intermediate inputs are inefficient (Hennart 1988). Then, joint ventures will be the most efficient governance structure when transactions are characterised by a moderate level of asset specificity and uncertainty. Given these transaction cost market imperfections, joint ventures are the best alternative for coordinating assets which can be shared at zero or low marginal cost, and cannot be separated from unwanted assets, i.e. company specific assets (Hennart 1988). In order to remain the most efficient alternative, it is important that effective safeguards exist against the risk of opportunistic behaviour of the partners (Buckley and Casson 1988, Kogut 1988, Brown et al. 1989).

internally or externally depends on the potential market failure for the goods or services transferred.

Asset specificity is the core determinant of internalisation in the transaction cost framework by Williamson (1985): it motivates vertical integration. Asset specificity refers to investments by either partner specific to business relationship. These are sunk costs that are unrecoverable costs in the case of a change of partners (Alchian et al. 1972). In international business transaction- specific investments are higher than in a national environment. This is due to higher costs of negotiating, partner search costs, bargaining and co-ordination. Asset specificity arises with investment in physical assets or human capital, notably if resources are committed to product or process customisation. The relevant resources then have to be acquired and integrated into the new affiliate, causing costs of two kinds. Transaction costs in the markets where resources are acquired, and costs of adapting an acquired resource to the needs of the project (Meyer and Erstin 1998).

The price mechanism generates an optimal allocation of goods if all agents have full information. If information about the traded goods is incomplete, or information itself is the traded item, then various forms of market failure arise (Arrow 1971). Such *demand externalities* (Williamson 1985) include information asymmetries[24], the free- rider potential for users of brand names who may degrade the quality of standards (Davidson 1982, Anderson and Gatignon 1986). It also includes externalities from the public good character of knowledge within the firm (Caves 1971:4).[25]

[24] Asymmetric information with respect to doing business in their home country as well as advantaged access to local resources enables domestic agents to exercise some kind of bargaining power in determining the ownership choice of the foreign partner (Svejnar and Smith 1984). At this point we depart from the assumption that the ownership structure derives exclusively from the determination of foreign partners' preferences without any constraints on behalf of domestic partners. In our conceptual framework inspired mostly by Nakamura and Xie (1998), the ownership structure is assumed to derive from a process of weighing costs and gains of various ownership options combining arguments based on transaction cost theory and arguments about the potential strategic benefits of cooperating with domestic partners.

[25] Like public goods, knowledge is non- rivalrous in consumption in that its use by one agent does not reduce its utility for other agents. These market failures are conceptually distinct from asset specificity because they arise from the non-specific nature of intangible assets (Kay 1991).

International business is subject to various sources of uncertainty arising from the unpredictable impact of organisational variables on corporate performance or inadequacy of information (Miles and Snow 1978, Pfeffer and Salancik 1978). Uncertainty reduces the possibility of writing complete contracts while increasing the probability of situations arising in which the partners need a joint reaction in response to changes in the environment. Therefore higher uncertainty, and higher risk aversion (Chiles and McMackin 1996) increase the preference for internalisation. This is because risk sharing may first reduce effects on the outcome of the joint project, and second eliminate effects on the terms of trade between the partners.

Within organisations hierarchies replace prices as co-ordination mechanisms. Management co-ordinates individual activities, gives directions and monitors agents. Many of its activities revolve around the collection, communication and evaluation of information (Casson 1997). The costs of managing across borders exceed those of a national company. Firstly, this is due to specific administrative costs of international production, and secondly, monitoring is more costly (Hirsh 1976). However, companies may reduce these costs of internal organisation if they can utilise economies of common governance, low psychic distance, experience and superior sources of funding (Comes-Casseres 1989, Dunning 1993).

International business has major cost components that are sunk costs that are incurred at entry and unrecoverable or fixed costs and independent of turnover. Country specific sunk costs are incurred upon entering a foreign country when investors need to study the legal, socio- economic framework and to establish contacts with local partners and government authorities. Goods have to be adapted to local tastes and legal requirements. Subsequent transactions can use existing facilities and thus have lower set- up costs, which consequently makes them more likely to be internalised.

Economies of common governance exist both for international business as well as for business with any partner country. Companies with a larger turnover are able to utilise such economies and incur lower costs when adding an additional operation to their portfolio. The internal transaction cost per unit thus declines with increasing turnover. Williamson (1985) describes this effect by pointing out that the more frequently transactions incur the lower is the internal transaction cost per transaction. These effects reduce fixed costs thus making internalisation more likely. Companies differ not only with respect to their sensitivity- independent fixed costs, but also in their ability to manage sensitive transactions. Capabilities that increase an organisation's ability to reduce uncertainty of internal transactions reduce the transaction cost (Casson 1995).

As the costs of business in a foreign country increase, the more distant and different this country is from the environment in which the company is used to operate. This effect increases both internal and external transaction cost. Risk assessment is hampered because the investor is not used to the nature of many sources of risk and political influences on trans- border transactions (Caves 1982). The costs of establishing a business in a distant country increase with the need to gather information, train local staff and adapt management to the local environment.[26] Companies can reduce the costs of distance if their management is familiar with the local environment through personal experiences and contacts (Gomes- Casseres 1989).

Experience in international business helps to overcome the obstacles of distance and reduce operating costs. Experience is gathered in every business context and may be transferable to related projects and permits continuous reductions of production costs. Two specific experience effects apply to the mode of business (Padmanabhan and Cho 1996) and to the partner country. First, experience in managing foreign subsidiaries reduces the cost of additional operations. Second, any experience in a country reduces

[26] The increasing costs of physical distance have three implications. First, the choice of organisational form for a given transaction depends on the differential impact of physical distance on costs of markets and internal organisation (Clegg 1990, Root 1983, Davidson and McFetridge 1985). Second, companies prefer to enter countries closer to home early in their internalisation process. Third, cultural gaps raise obstacles to integrating acquired companies. Considering organisational costs, greenfield investments are preferred to acquisitions if post-acquisition costs of matching organisational structures are high (Jemison and Sitkin 1986, Kogut and Singh 1988).

the costs of future projects in similar countries. The accumulation of experience leads to reductions in transaction costs, compensating the effect of distance.

Internalisation decisions are frequently interdependent with investment decisions and thus with the commitment of the investor to bear country specific investment risk. Transaction cost often ignores this aspect because it does not arise in perfect capital markets. Either a risk-sharing contract is established, or each partner receives a share in the integrating company to reverse the impact on the risk portfolio of each individual. However, international capital markets are not perfect. A company wishing to internalise its business in a foreign country has to contribute a major share of capital. If local capital markets are underdeveloped, this capital may have to be raised on international capital markets rather than the locally. Thus, the investor has to bear the country risk (underdeveloped local capital market) associated with the project because he has to invest at least some equity as lenders otherwise would not be willing to finance foreign operations. By shifting it to a local partner the risks can be reduced (Brouthers 1995).

Unfortunately the literature does not provide distinct concepts of uncertainty that fit this model. Presumably, internalisation effects are mainly associated with industry uncertainty, whereas the business deterrent is associated with environmental risk. This separation is helpful for analytical purposes. The trade-off between different kinds of risk implies that agents may be willing to accept higher levels of industry risk if country risk is low. In empirical research country risk (economical and political risk) is rarely shown to influence FDI unless measures of managers' perceived risk are used (Kim and Hwang 1992, Erramilli and Rao 1990). Economic development influences several determinants of the model, including country risk, the technological capabilities of the recipients of technology transfer, the development of financial markets and the regulatory environment.

Because of governmental regulation of FDI, few scholars argue that the choice of organisational form depends on the companies' relative bargaining power vis-à-vis host governments (Fagre and Wells 1982, Lecraw 1984, Korbin 1987). Gomes- Casseres (1991) combines this argument with transaction cost, arguing that the decision on the organisational form of business can be divided into two stages. First, the determination of the company's preferences and second the negotiations with the local government.

Transaction cost economics describes markets and companies as alternative forms of organising business transactions. If the conditions are close to the assumption of standard economic models, then the transaction is coordinated through a price mechanism. However, if markets fail, then the transaction may be internalised in a company and coordinated by hierarchy (Williamson 1981). Yet, the dichotomy of companies and markets is unsatisfactory to describe modes of modern business (Stinchcombe 1990).[27]

In the literature the notion of organisational forms that mix elements of markets and hierarchies has received considerable attention. Some researchers of transaction cost treat contractual arrangements, explicit or implicit, as intermediate forms of internalisation between markets and hierarchies.[28] Hennart (1993) presents a model that locates contracts in the continuum between markets and firms. He assumes convex total costs and suggests that intermediate forms are cost efficient. In this approach, each organisational form is described by the combination of price and hierarchical mechanisms it employs to coordinate transactions.[29]

[27] Price systems indirectly control individuals by creating incentives to provide a revenue- maximising quantity, and quality of output. Hierarchies directly control agents by imposing behavioural constraints. Under both regimes, agents may seek ways to reduce their contribution. For each transaction, the recipient has to measure quality of received products or to monitor their agents' efforts. These efforts, plus the losses resulting from undetected cheating or shirking, are transaction costs of the chosen organisational mode. Hennart (1993) distinguishes them as cheating costs (for price systems) and shirking costs (for hierarchies).

[28] Williamson (1991) describes intermediate forms such as various forms of long- term contracting, reciprocal trading, regulation, franchising and the like as hybrid modes. They are located between markets and hierarchies with respect to incentive adaptability and bureaucratic cost. Shelanski and Klein (1995) review transaction cost and state that governance structures can be described along a spectrum. Similarly, joint ventures are described as cooperative modes in which control is shared by two or more parents who only partially internalise the operation (Beamish and Banks 1987, Jarillo 1988, Buckley 1997).

[29] An alternative interpretation of the dependent variable is to treat different organisational modes as alternatives with no implicit order. Buckley (1985: 52) argues that a simple spectrum running from

So far the transaction cost approach has been presented for given transactions. However, decisions on the organisational mode and the transaction itself are related. For the empirical analysis, it is necessary to distinguish various transactions that may be found between Greek and Balkan companies. Transaction costs are particularly high in the Balkans during the process of economic transition. With the dissolution of the central-plan, administrators became economic agents. The old economic system disintegrated before the institutions supporting the new market system could be created. Managers had to act on markets that did not yet exist; they lacked both the (tacit) knowledge on how to use the market mechanism and the market knowledge about potential partners and competitors. As agents without experience on the market, they have to identify potential types of business and the preferences of potential business partners. Thus, agents engage in considerable search processes to set up transactions and to find the right prices. The transaction costs of this search inhibit many potential transactions. Transaction costs are further increased by lack of information, and legal-enforcement systems, which in many cases are corrupted. Information asymmetries and opportunities for opportunistic behaviour had galore (Petrakos and Totev 2001).

Until today transaction costs theory is the most dominant explanation of the existence and growth of FDI. Its major contribution is the ability to explain why companies are more efficient than markets. The theory, however, does not take into account country specific issues such as countries' economic condition, which cannot be ignored when considering how and where to invest abroad.

2.5 Ownership Based Entry Mode Strategies

The ownership structure that companies select when investing abroad is a question usually addressed in the FDI literature. The choice of appropriate mode of entry into new markets is a key strategic decision for international business. The choice critically

---

wholly- owned foreign subsidiary to simple contracts is an inadequate representation of the nuances and complexities of the different arrangements.

influences the likely success of the foreign operation since it affects the profitability and the performance of the respectively invested assets (Davidson 1982, Root 1987).[30]

International business is subject to higher transaction costs than domestic business, due to extensive imperfections on international markets. This makes the choice of an optimal organizational form a key issue in international business strategy. Companies entering a foreign market can choose among an array of possible organizational modes, including joint- or wholly-owned ventures. These alternatives differ in the control that the entrant attains over the local operations, and have been analysed in the literature by applying transaction cost economics (Anderson and Gatignon 1986, Hennart 1988, 1991, 1995).

Foreign companies decide on the extent of ownership by taking into account the costs and benefits resulting from their alternative choices.[31] This research suggests that entry mode decisions are related to a number of contingencies; further, the non- uniform distribution of these contingency factors among modes suggests that each mode has a unique *contingency profile* which influences its performance.

A number of contingency variables have been empirically linked to the entry mode choice. Some of the earliest research in the area proposed an incremental model of internationalisation. In this model a company moved through ever increasing levels of international resource commitment as its size, product diversity, and foreign experience grew. Johanson and Vahlne (1977) made the incremental process more explicit, adding the theoretical rationale that managers' growing understanding of foreign markets over time and exposure leads to a higher comfort level with more *psychically distant*

[30] Maximisation of performance and gains from operating abroad with respect to the ownership share provides the optimal demand for it. In particular, optimal ownership can be thought of as a mechanism to provide maximum gains as well as to protect proprietary rights, which cannot be fully contacted out and, at the same time, as an incentive device for reducing monitoring costs.

[31] The benefits depend on the affiliate's profits and the amount of transferable assets, for which a price has to be agreed. The costs depend on potential spillovers, due to leakage of important information- based assets to competitors within the same industry, which may lead to a reduction in future profits, and monitoring expenses necessary to prevent agency problems connected to controlling an investment and its related workforce in a foreign market.

locations. Dubin (1975) and Davidson (1980) provide further support for this contingent, incremental entry mode relationship.

A variety of studies have considered country, industry and company specific factors and their contingent influence on wholly owned entry mode decisions. Caves and Mehra (1986) found that entry mode selection was influenced by a variety of industry and company specific factors. These factors include company size, research intensity, industry growth, and industry concentration. In a partial departure from the incremental adopted models by earliest researchers, Caves and Mehra (1986), and Zejan (1990) argued that previous investments in a country were irrelevant, and that the selection between greenfield and acquisitions modes was fully explained by the degree of multinationality, technological diversity, and the size of the parent company.

Other studies have compared joint venture and wholly owned entry modes. Gatignon and Anderson (1988) found that locational factors, the degree of multinationality, influence the decision between joint ventures or wholly owned entry modes. Kogut and Singh (1988) found that industry, company, and country- specific factors influence the selection decision between the three ownership- based entry modes. In addition, several company specific variables were linked to wholly owned and joint ventures modes (Kogut and Zander 1993). Furthermore, Anderson and Gatignon (1986) Kim and Hwang (1992) and Agarwal and Ramaswani (1992) examined a wide variety of entry modes. They found that locational, ownership and internalisation advantages contingently influenced all the various entry modes.

Formal control over the local operation is gained by forming a joint venture. Two or more partners cooperate by forming a venture in which they each hold equity and share revenues. It places the local business unit under joint control of the legally independent local and foreigner partners (Kogut 1988, Harrigan 1988, Parkhe 1993, Ramamanathan et al. 1997). Through profit sharing, joint ventures create incentives to support the success of the venture. However, they do not fully eliminate the incentives to shirk if one agent's benefit from shirking exceeds her share in profit foregone. The partial internalisation may create complex governance problems between the partners, notably if they enter the joint venture with different objectives.

On the other hand, the entrant can obtain almost full control over the local operation by establishing a wholly- owned subsidiary. This integrates the foreign operation into the investing company's activities and eliminates the need to accommodate the interest of the local partner. Control may then only be limited by legal protection of local stakeholders, governmental interference or changes in the legislation. As a trade- off, however, the investor then has to integrate a foreign business unit in its hierarchy and control potential shirking of employees in the foreign affiliate.

In economies in transition, additional factors may affect the mode choice. Entrants may, at least initially, not find suitable partners or companies to acquire and thus accept lower degrees of involvement. Greenfield investment may be too slow to achieve the desired strategic objectives, notably if companies pursue first mover advantages. Acquisition opportunities are often dependent on the privatisation process, which is highly politicised and subject to interference from various governmental agencies (Antal-Mokos 1998). Initially, investors may prefer joint- ownership to ease access to local institutions (Stopford and Wells 1972, Thornton and Mikheeva 1996).

Foreign companies entering the transition economies have superior experience in the use of markets. However, they too face high transaction cost. Their transactions are affected by lack of information about their partners, by complex negotiations with partners inexperienced in business negotiations (Antal- Mokos 1998), by an unclear regulatory framework and an inexperienced bureaucracy (Thornton and Mikheeva 1996). This weak institutional framework implies that cheating costs are potentially high. The reaction, from a transaction cost point of view, would be to internalise the business transaction. However, shirking costs are also high. The central- plan regime was based on a hierarchy in the whole economy that established quantitative output targets with few incentives to provide quality and customer service. Furthermore, foreign investors wishing to establish a wholly- owned operation could often only do so through an acquisition in the privatisation process. This, however, requires complex negotiations with governmental authorities (Brouthers and Bamossy 1997) as well as involvement in the process of company restructuring (Pohl et al. 1996, 1997). Post- socialist companies need major changes not only in corporate strategy but also in the organisational structure and culture (Newman 1998, Meyer and Bjerg- Moller 1998). Often, investors are also expected to assume financial and environmental liabilities of the acquired company. Thus, the costs of setting up an efficient local operation are very high.

2.5.1 Resources Commitment and the Choice of Entry Mode

A company seeking to enter a foreign market must make an important strategic decision on which entry mode to use for that market. Because all of the modes under consideration involve resource commitments, companies' initial choices of a particular mode are difficult to change without considerable loss of time and money (Root 1987, Kumar and Subramaniam 1997). Entry mode selection is a crucial strategic decision, determined by the scale of investment and the risk- return on investment (Cateora 1993, Czinkota et al. 1993, Daniels and Radebaugh 1993, Paliwoda 1993, Young et al. 1989).

Normative decision theory suggests that the choice of a foreign market entry mode should be based on trade- offs between risks and returns. A company is expected to choose the entry mode that offers the highest risk- adjusted return on investment. However, behavioural evidence indicates that a company's choices may also be determined by resource availability and need for control (Cespedes 1988, Stopford and Wells 1972). Resource availability refers to the financial and managerial capacity of a company for serving a particular foreign market.

Researchers have suggested that different entry modes require different resource commitments (Daniels 1970, Vernon 1983). Anderson and Gatignon (1986) developed a transaction cost model that considered the trade- off between the costs of mode control and the costs of mode resource commitment. Hill et al. (1990) elaborated on this idea of resource commitment when they differentiated between joint ventures and wholly owned entry modes. Resource commitment has been used widely to contingently differentiate between joint ventures and wholly owned entry modes. The greater the degree of ownership in the entry mode is, the larger the resource commitment. For example, in a joint venture, a company's resource commitment is minimised relative to a wholly owned entry mode because of the shared resources commitment between companies (Hill et al. 1990, Daniels and Magill 1991, Anderson and Gatignon 1986).

Errammili (1991) and Errammili and Rao (1990) used market knowledge to explain why companies use specific entry modes. Davidson (1982) found that companies having lower market knowledge tended to reduce the strategic risk by entering these markets through joint ventures rather than wholly owned modes. Therefore, resource- based contingency theory has been used extensively to differentiate between joint venture and wholly entry mode selection.

The important difference between the acquisition and joint venture modes is that companies in a joint venture share and provide access to some of their internal resources, while in the acquisition mode no such access is provided. A company will tend to favour an acquisition entry mode if it can not find a suitable partner predisposed to providing access or sharing the required resources, or if it is not itself predisposed to providing access to internal resources. A company will use the joint venture mode to rectify a resource deficiency only if it is willing to risk providing access to such resources, and can find a willing and suitable partner having appropriate resources to share or provide access (Hill et al. 1990). The critical factor in the joint venture is finding partners that are predisposed to providing such access to resources.[32] A company's predisposition to provide another company with access to its resources will depend upon its perception of

[32] This predisposition must be based on inter- company trust, and a perception that access and sharing of resources will not negatively impact the company strategically (Daniels and Magill 1991).

the risk of exposing its critical resources. A company unnecessarily exposing critical resources may provide its partnering company with a competitive advantage (Collis 1991, Hamel and Prahalad 1990, Prahalad and Bettis 1986, Stalk et al. 1992). Therefore, the perceived nature and type of resources being exposed is important to the entry mode selection process. If companies want to protect these vital core resources and the perceived risks of having them transferred to the second company are high, then they should procure the needed resources through an acquisition.

The contingency relationships delineated above not only influence the selection of the entry modes, but also their profitability. Companies already having the appropriate resource incur minimal resource- based costs during market entry. However, companies not having the required resources must procure them using a joint venture or acquisition. Such a transaction will have an associated cost. A company using an acquisition entry mode will have several costs associated with procuring the necessary resources for market entry particularly in the inefficient market situation, which an acquisition represents. This puts the acquiring company at a disadvantage for evaluating the value of the resources being purchased. The transformation and integration of acquired companies is subject to tensions between radical change to match the strategy and corporate culture of the acquirer, and preserving what is valuable in resources and cultural attributes in the acquired organisation (Carlin et al 1995, Newman and Nollen 1998, Uhlenbruck and DeCastro 1998, Stiglitz 1999, Soulsby and Clark 1995).

Joint ventures have minimal risks associated with resource overpayment because of the symmetrical and ongoing nature of the transaction process. The risk of paying too much for these resources is limited because all partners face the same potential information asymmetry problem. Therefore, neither partner has a clear ability to induce the other partner to overpay or over-commit without incurring the same problem himself. This situation leads to a situation where neither party wants to induce the other to retaliate. In addition to the above retaliatory motivation game, a positive motivational economic game is also present. Given that joint ventures are benefiting from either sharing resources or remuneration, all parties will be reticent to cheat for fear they will lose these benefits. Therefore, all parties attempt to actively support the joint venture and do not cheat. This positive economic game dilemma produces a non- cheating environment based on the accruing benefits to all parties (Harrigan 1986).

2.5.2 Organisational Control and the Choice of Entry Mode

Organisation control costs depend upon the entry mode selected.[33] In this study organisational control is defined as the efficient and effective management of the relationship between the parent and entry entity that enables the parent to best meet its overall goals and objectives. Organisational control has frequently been associated with different entry modes. Previous research has suggested that entry modes having different ownership levels are associated with specific control capabilities and capacities.[34] Higher operational control results from having a greater ownership in the foreign venture. The level of control is lowest in the case of joint venture and highest in the case of a wholly owned subsidiary.

Control plays an important role in the capacity of a company to achieve its goals. Typically, as organisations expand into foreign markets, there are concurrent increased in the complexity and differentiation of their structures (Lawrence and Lorsch 1967), as well as in the risks of conflicts, opportunistic behaviour and competing goals between units. As a result, managers are confronted by the increasingly crucial need to monitor, coordinate and integrate the activities of the organisation's business units, including joint ventures (Child 1977, Mintzberg 1979).

In a joint venture, the multiple ownership arrangement has costs associated with the ongoing management of the relationship (Beamish and Banks 1987, Killing 1983). Thus,

[33] By control we mean authority over operational and strategic decision- making (Anderson and Gatignon 1986), which is desirable to improve a company's competitive position and maximise the returns on its assets and skills.

based on management control issues, the wholly owned modes appear to be intrinsically distinct from the joint venture mode. For effective control, joint ventures may depend on mechanisms that take time to develop and consume managerial attention, such as trust. They also bear the additional cost of having more relationships to manage. The entity itself has two parents, as opposed to one, and the parents themselves also must maintain a relationship (Woodcock et al. 1994, Beamish and Banks 1987, Killing 1983).

In contrast, a greenfield venture is under its parent company's sole management and control from the outset. Thus it attracts only those additional costs or risks associated with being distant from the parent. These base costs are common to all foreign investments. Since the joint venture mode bears higher resource and management control costs, it is expected to perform at a lower level than the greenfield mode. Greenfield investments tend to outperform acquisitions because of lower control costs. Literature suggests that integration and control issues are linked to the failure of many acquisitions to perform up to their purchasers' expectations. In a greenfield venture, a company faces only minimal control costs, since there is no question of having to integrate different corporate cultures and divergent strategic viewpoints. The new entity becomes an extension of the existing one, admittedly with significant start- up costs, but with a much lower long- term risk of continuing integration problems faced by acquired companies. Because they bear lower costs of management control, greenfield investments are expected to perform better than acquisitions.

Acquisitions incur high control costs. First, organisational culture differences may exacerbate the management control problem between the two merging entities. Cultural differences may limit the effectiveness of behavioural- based control mechanisms that rely upon trust, value congruence and respect (Nahavandi and Maleksadeh 1988). This may force the acquiring company to use a restricted set of control mechanisms, which in turn may decrease the implementation efficiency of the organisation control (Woodcock

[34] For more details see the studies of Anderson and Gatignon (1986), Calvet (1981), Caves (1982), Davidson (1982), Root (1987).

et al. 1994). Organisational culture differences may also impede organisational integration, yet executives often erroneously predict that organisational integration will produce post- acquisition synergies. The opportunity costs of not gaining these synergies immediately may be significant (Nahavandi and Maleksadeh 1988, Chatterjee 1992, Porter 1987).

Having decided to enter a foreign market, a company has to determine the appropriate mode for organising its foreign business activities. Each of the modes of entry has different implications for the degree of control that a company can exercise over the foreign operation and the risks that it must bear to expand into the foreign country. Thus, identifying the appropriate entry mode in a given context is necessarily a difficult and complex task. The choice, however, is a critical determinant of the likely success of the foreign operation (Root 1987, Davidson 1982, Killing 1982). Unfortunately, much of the existing literature on the choice of entry mode focuses in a piecemeal fashion on many seemingly unrelated factors including country risk, country familiarity, the stage of country development, technology, and transaction costs. There is a need for a unified framework within which different factors can be placed and the relationships between them analysed. A previous attempt to provide such a framework was made by Anderson and Gatignon (1986)[35] and Dunning (1977, 1980, 1988).

Anderson and Gatignon (1986) discuss two general categories of risk: internal and external. They suggest that companies are interested in subsidiary control as a means of controlling risk and improving performance. They state that companies trade various levels of control for reduction of resource commitment in the hope of reducing some forms of risk while increasing their returns. They hypothesise that the greater the

[35] The shortcoming of this framework stems from their attempt to reconcile different entry mode explanations within a transaction cost framework. The position taken here is that while transaction cost explanations are of major importance, transaction cost logic alone does not provide all of the answers. Transaction cost explanations of the choice of entry mode focus on each entry decision in isolation, treating each as a self- contained decision. A company's choice of entry mode may depend upon the strategic relationship the company envisages between operations in different countries. Thus, a particular entry decision cannot be viewed in isolation. By limiting the framework to transaction cost explanations, the role that regional- domestic competition plays in determining the appropriate entry mode.

country risk and asset specificity, the higher the control sought by the company. They also suggest that a company's international experience is positively related to the amount of control sought because more experienced managers have a more accurate perception of foreign risks and returns.

2.5.3 Comparing International Ownership Based Entry Mode Performance

A theoretical relationship is developed for international entry modes that are based on the contingency characteristics of resource requirements and organisational control factors. It suggests that different entry modes have different performance outcomes based upon their resources and organisational control demands (Woodcock et al. 1994). The importance of entry mode selection to a company's competitive advantage in a new international market has been studied widely, yet the majority of these studies have not examined mode performance (Anderson and Gatignon 1986, 1988 Beamish and Banks 1987, Hennart 1988, 1991, Hill et al. 1990, Gomes- Casseres 1991).

Currently, no empirical linkage has been made between theoretical selected international entry mode choices and company performance (Woodcock et al. 1994) though scholars have examined mode performance differences (Makino and Beamish 1998, Woodcock et al. 1994). However, the literature has acknowledged the importance of doing so (Woodcock et al. 1994).[36]

With respect to mode type, previous research shows that new wholly owned ventures tend to outperform joint ventures (Nitsch et al. 1996, Woodcock et al. 1994). Despite this evidence, few researchers have explicitly measured and compared the performance

---

[36] Empirical research comparing international ownership based entry mode performance has been sparse, owing to the difficulty associated with collecting valid data for a company's international venture and or subsidiary performance. Subsidiary performance data are difficult to obtain because they are usually confidential. Furthermore, when performance values are obtained they are often hard to interpret because management accounting practices differ between companies and countries, and internal subsidiary performance measures do not have to conform to legal or accounting standards (Woodcock et al. 1994).

of the various international entry modes, and fewer still have attempted to develop a theoretical argument for performance differences (Woodcock et al. 1994).

Although there is no theoretical- empirical research to guide us in making predictions concerning the relationships between the various variables, entry mode choice and company performance, previous literature does not suggest several reasons why the mode of entry may have an impact on performance. The objective of this study is to explain what affect contingency factors have on the performance of the different international ownership- based entry modes. Therefore, this study examines whether certain contingent mode characteristics produce performance differences between the three international ownership based entry modes (Woodcock et al. 1994: 255).

It is becoming axiomatic that investing abroad can have serious implications on corporate accomplishments (Daniels and Bracker 1989, Geringer et al. 1989). Because investing in a foreign country is deemed to be substantially more risky than remaining in the domestic market, Miller (1987) suggests that companies should consider assessing several dimensions of the foreign environment in an effort to allow the company to optimise its returns for the risk assumed. In that respect Agarwal and Ramaswani (1992), Known and Konopa (1993), and Ekeledo and Sivakumar (1998) suggest that a company is expected to choose the entry mode that offers the highest risk- adjusted return on investment.[37] They contend that the level of control and resource commitment associated with each entry mode alternative may reflect this risk- mode- performance relationship.

37 The company's competitive position, thus, is mainly determined by its temporary competitive advantages. This explains the rather short- term orientation of the strategic behaviour approach. Given a relative advantage, the MNE will try to maximise short- term profits, even at the expense of long- term considerations, to prevent other companies from appropriating their competitive advantages (Buckley 1990). A wholly owned subsidiary will be preferred over other alternative governance structures, if this serves the MNE's relative competitive position best (Contractor and Lorange 1988). Joint ventures also function as an effective mechanism for the improvement of a company's relative competitive position. MNEs are expected to establish a joint venture only if this mode of entry maximises profits by improving the MNEs' relative competitive position. Then, the advantages minus the disadvantages of joint ventures relative to all other alternative governance structures are highest (Contractor 1990). Some of the strategic advantages of joint ventures are economies of scale, learning effects, reduction of risk and competition, access to know- how, skills and assets, and so on. Disadvantages are the cost of coordinating activities, the dissipation of know- how, and possible opportunistic behaviour (Porter and Fuller 1986).

They also propose that since risk and control are related to a company's costs and returns of doing business in a foreign market, the risk- return/ cost- control tradeoffs model is offered as an explanation of a company's behaviour of maximising profit by choosing the optimal entry mode for a desired market.

Recent attempts to relate entry mode choices to company performance do not empirically examine theory driven selection criteria for companies' international entry mode choices (Anand and Delios 1997, Chan 1995, Makino and Beamish 1998, Nitsch et al. 1996, Simmonds 1990, Woodcock et al. 1994). Typical is Woodcock et al. (1994) who explained that their study did not test the theoretical arguments that cause performance variance.

A study by Li and Guisinger (1991) looked at performance differences between all three ownership- based entry modes. The study hypothesised that new ventures would have the lowest failure rate, acquisitions the highest, and joint ventures a median rate. This study found the relationship between new ventures and acquisitions to be in the hypothesised direction and significant.

Woodcock et al. (1994) made three major points with respect to the relationship between entry mode choice and performance. First, companies must consider the risk of exposing their core resources to other organisations in making the mode selection decision. Second, they suggest that in acquisitions, companies risk paying too high a price for the target company and therefore reduce their future performance. Third, they suggest that joint ventures and greenfields reduce the impact of acquisition risk. They found that the new venture mode outperforms the joint venture mode and the joint venture mode outperforms the acquisition mode.

Nitsch et al. (1996) who suggested the same cost- risk relationships as in Woodcock et al. (1994), found that joint ventures and greenfield ventures provided better performance than did acquisitions. Pan et al. (1999) suggest that management control will reduce costs for wholly owned subsidiaries as compared to equity joint ventures. Pan and Chi (1999) use arguments and data sets similar to Pan et al. (1999). They found that equity joint ventures had higher performance than wholly- owned modes.

2.6 Conclusions

During the past three decades difficulty in establishing a general theory for understanding the behaviour of a company in the international context, has accompanied the growth of the field. The reason is that most of the contributions in the literature derives from a variety of academic disciplines, ranging from neoclassical economic theory to industrial organisation theory. This wide range of contributions in the international business literature has resulted in a considerable diversity within the field and a lack of a common framework (Dunning 1993). The study of FDI as a separate body of literature was introduced in Hymer's doctoral dissertation in 1960.[38]

Hymer's contributions in the field of international business was to realise that FDI could not be explained as if it was portfolio investment, that is, inter- country movements of capital responding to differential rates of return on capital.[39] He noted that neo-classical financial theory with its restrictive assumptions of perfect competition, zero transaction costs and interest- rates differentials as the sole drivers of capital movements could not

[38] Hymer (1960, 1976) explained FDI as an international extension of industrial organisation theory. He criticised the model of perfect competition of neoclassical economics, which asserts that international trade is the only possible way to have international involvement. Hymer challenges the assumption of the model of perfect competition that information is costless and freely available. According to Hymer, local companies are better informed about the local environment situation than foreign companies. In order to be able to provide an explanation for the existence of FDI, two conditions must be fulfilled. First, MNEs that own and control foreign subsidiaries must possess company specific advantages that outweigh the disadvantages of being a foreign company. Second, the market for selling these advantages must be imperfect. These monopolistic advantages imply the existence of structural market imperfections. Hymer's view on MNE as monopolistic rent seekers formed the basis for Kindleberger's (1969) *market imperfections paradigm* and for Cave's (1971) early work. Hymer's market imperfections theory of FDI postulates that wholly owned subsidiaries are the best alternative in the case of monopolistic advantages, while arm's length transactions are the best alternative in the absence of these advantages.

[39] Hymer's contributions to the literature was a major step forward and a radical departure from the neo-classical approach, that first introduced FDI as an autonomous discipline needing special explanation other than portfolio investment or perfect competition. However, Hymer's theory paid less attention to strategic issues such as competition among companies entering a particular host country.

explain why companies transfer intermediate products such as knowledge and technology, across international borders, while still retaining control over them. Based on theories of structural characteristics of markets and industries, he argued that structural market imperfections enable organisations to utilise the power given by their specific advantage to close markets and to obtain superior rents on their activities.[40]

Although his theory of ownership specific advantage did explain an important condition for the establishment of MNE, it failed to explain why companies had to locate sales or manufacturing subsidiaries abroad. Ownership specific advantages could be exploited by other means such as exports. Apart from the emphasis it gives to the desire to appropriate the maximum economic rent of their assets to strengthen their positions, a special advantage does not necessarily lead to foreign production.[41]

Hymer was much concerned with explaining why FDI occurred. However, he did not explain why it occurred in a particular country and not in another, in other words, where FDI occurred. The question concerning the country in which a company is located is of great importance, especially if the company considers issues such as comparative costs, resource endowments, and economic conditions.

Hymer's (1960) market imperfections theory of FDI uses the concept of market power in explaining the existence of MNE. The market power held by companies is believed to be based on their monopolistic advantages. Whenever companies possess monopolistic advantages, they will invest outside their own country only by retaining full ownership. Alternatively, an arm's- length contract will be selected. This dichotomy is a rather limited perspective as it ignores all kinds of intermediate or hybrid forms of

[40] Such advantages have been recently explored by other researchers to include technologies, product differentiation, marketing, and investment in branding, distribution and service (Porter 1980, 1985).
[41] When Hymer wrote his thesis (1960), international business activities had not grown and spread as they have today. In the current business environment, companies have assumed different characteristics, compared to the early sixties. Companies operating across borders can be found attaining special advantages in many ways that arise from their feature of multinationality, that is, spreading direct investments over many countries.

organisation, such as joint ventures. [42] A second point of criticism on Hymer's work is the use of monopolistic advantages, which *automatically* lead to revenues.[43] Even if an advantage can be patented, it will not exist forever, because the patent system is not a perfect system (Hennart 1982). Hence, it can be concluded that Hymer's assumption of eternal monopolistic advantages is not realistic.[44]

Transaction cost economics is complementary to these two approaches, since its unit of analysis and its focus differ. Transaction cost economics evaluates decisions at the level of the individual transaction while the strategic behaviour approach and the resource-based approach respectively take the company and organisational units as the unit of analysis. Furthermore, transaction cost economics uses the long- term or structural efficiency as the criterion for choosing between alternative governance structures. The inclusion of structural efficiency considerations adds to the decision criteria of the strategic behaviour approach and, to some extent, of the resource based approach. The strategic behaviour approach ignores the concept of structural efficiency completely, whereas the resource based approach makes an explicit distinction between strategic intent and structural efficiency, which are integrated into one model (Tallman 1991). However, the attention this latter concept receives in the resource- based view is much shallower than in transaction cost economics.[45]

---

[42] A comparable narrow focus was advocated in the initial publications on transaction cost economics (Coase 1937, Williamson 1975). In more recent contributions, the existence of hybrid governance structures was acknowledged (Hennart 1988, Riordan and Williamson 1985, Williamson 1981, 1985, 1991). The main arguments of transaction costs economics concern the hybrid organisational structure of joint ventures. They are partly co-ordinated by prices and by hierarchy mechanisms. The transaction costs literature emphasises the effects of the incomplete internalisation and sensitivity to market failure.

[43] This automatic way of generating revenues is in sharp contrast with the strategic behaviour approach, which states that obtaining revenues depends on the strategic choices companies make. These monopolistic advantages are company specific and remain valuable for a very long time without being appropriated by other companies. This conception of everlasting is beyond the contemporary reality of business. Nowadays, competition is so severe that nearly every advantage a company has over other companies will only be valuable for a short time. Competitors try to acquire or imitate such an advantage, making the comparative advantage worthless.

[44] In contrast, the strategic behaviour approach and the resource-based approach acknowledge that company specific advantages are only temporary. Both approaches recognise that these company specific or competitive advantages have to be protected against the appropriation of imitation by competitors.

[45] Transaction cost economics only concentrates on structural efficiency at the level of the transaction, completely ignoring strategic considerations. This is problematic, because transaction cost economics

A second shortcoming of transaction cost economics is that it focuses only on the minimisation of costs when comparing alternative governance structures, and ignores possible benefits (Kogut 1988). Such an approach seems to assume that the benefits are similar for all possible governance structures. However, it disregards the existence of benefits, which may accrue from unique characteristics of the different modes of organisation.[46] A final weakness of transaction cost economics involves the implicit assumption of identical production functions across companies (Conner 1991). This suggests that all managers of all companies have the same management capabilities and routines, and use them in the same way. This assumption is not realistic, as it denies the existence of company specific differences in this area.[47]

Internalisation theory, which is perceived as a general theory for the existence of the MNE (Rugman 1979) is frequently considered to be analogous to transaction cost economics. Both transaction cost economics and internationalisation theory rest upon the early work by Coase (1937).[48] While Williamson was working on his *markets and hierarchies* dichotomy, Buckley and Casson formulated their internalisation theory. The fundamental ideas underlying the two concepts are identical: companies use their internal organisation structure to overcome problems, which are caused by inefficiencies in factor markets.[49] Nevertheless, there are some differences between these theories.

---

assumes a situation of imperfect competition in which strategic behaviour is important (Harrigan 1985, Hennart and Park 1994). Moreover, strategic considerations turn out to have a decisive impact on ownership decisions (Hill et al. 1990, Kim and Hwang 1992). Companies may select a mode of entry, which is not efficient for the specific transaction but which is the best alternative for the firm as a whole, i.e. for strategic considerations (Kim and Hwang 1992, Kogut 1988).

[46] One example is the synergy between companies, which can be achieved in joint ventures by combining and exchanging relevant know- how. This synergy will result in higher benefits than a company would gain in a wholly owned subsidiary (Contractor 1990, Contractor and Lorange 1988).

[47] Unlike transaction cost economics, the resource- based approach assumes that all companies have a different and unique stock of capabilities and resources (Penrose 1959).

[48] Parry (1985) disputes that internalisation theory is a general theory of FDI, since it cannot provide explanations for the choice between exports, licensing and FDI or for the existence of joint ventures.

[49] Both theories assume that these inefficiencies can be dealt more efficiently within rather than outside the company. In this regard, Hennart (1988) stressed that organisations may fail too. Thus, he proposed a *theory of firm failure*, which shows that companies are not more efficient than markets where high transaction costs are concerned. He emphasised the necessity for companies to reduce shirking and to control internal loss of information. These are aspects, which are neglected by transaction cost economics and internalisation theory.

Transaction cost economics focuses on the level of the single transaction, whereas internalisation theory takes the company as the unit of analysis. Another difference is that the second axiom of internalisation theory requires some additional constraints to prevent it from being tautological (Buckley 1983).[50] A last difference is that internalisation theory explicitly takes location specific advantages into account, whereas transaction cost economics disregards these advantages.

The two eclectic approaches (Dunning's OLI and Hill et al.) also incorporate location specific advantages. Dunning's paradigm, distinguishes three kinds of advantages, which are believed to explain the foreign activities of the whole population of companies. Two of these advantages (location and internalisation) are comparable with those of internalisation theory, although the precise interpretation of the advantages differs. For instance, internalisation theory combines ownership specific advantages and internalisation advantages since the former advantages have to be internalised to be effective.[51]

[50] Only then, internalisation theory is able to determine what transactions need to be internalised and what mode of entry should be selected. Transaction cost economics can provide the framework required (Teece 1986).

[51] Hill et al. focused on the level of the individual company, whereas Dunning attempted to explain why the whole population of MNE developed cross- border activities. Hill et al. assumed that the competitive advantages of companies are temporary advantages, while Dunning's ownership specific advantages are monopolistic advantages. A shortcoming of Hill et al. (1990) eclectic framework is that no explicit attention is paid to the resources and capabilities of companies. Hence, the resource- based theory is not incorporated in their eclectic framework (Itaki 1991, Rugman 1986).

CHAPTER THREE

Analysis of the Business and Investment Environment of the Balkans

3.1 Introduction

The Balkan region has been changing in a very fundamental way, under the impact of various interacting forces of economic transition that are shaping the new economic landscape. The old structures of internal economic relations have collapsed, while new economic structures have been, often forcefully and painfully, in the making. Since the start of economic transformation, the adjustment to the market economy has been characterised by persistent macroeconomic instability, and lack of consistence in economic policies, leading to repetitive economic crises.

They have been a number of attempts to identify the reasons and to offer plausible explanations for the transition process of the Balkans. Here we review the *qualitative* explanations for the poor performance of the Balkans such as the insufficient commitment to the market and to integration with the West, and the enduring administrative weaknesses of the governments to propose valid strategies for growth.

The Balkans retain their regional importance owing to the size and strategic location on several of the main transport routes to Western Europe, CEE, Russia and Asia. In the event that political developments were to permit it, neighbouring countries could benefit from recovery and reform in the region through two main channels. First, restorations of trade linkages and, second, making the region a more attractive destination for FDI by increasing co-operation on trade, simplifying border crossings and co-ordination of regional infrastructure and regulation.

3.2 Economic Policy and Transformation

Initial conditions and the policies of the last decade determined the backwardness of institutional reforms. Reforming institutions is complicated, since the capacity for institution building is restricted due to limits imposed by the tensions of economic transition. The old structures of the command economy have been removed. However, market driven institutions to guide and support the transition process have not been properly established.[1] Inherited contact with Western markets in the region have been weaker than in CEE, delaying easy acceptance of market supporting institutions during transition. The UN sanctions on Yugoslavia caused negative disincentives for trade and investment in the Balkans.

In the course of economic transformation, a number of *transitional weaknesses* emerged. These were weaknesses in the economic structure, such as the existence of inherited large sectors of loss making companies, and weaknesses in the institutional framework, which created bottlenecks in the functioning of markets and weakened the foundations of an effective and clear corporate governance for foreign investors. Last but not least, the transition crises caused a degradation of the financial systems and markets, therefore damaging a central principle of the transition process.[2]

Structural changes were few, resulting in a long lasting transition recession. The establishment of the free- market institutional framework turned out to be a long trial and error process. The result was a delay in the reallocation of resources previously employed by the socialist industry. Unclear property rights, the non- functioning legal system and the underdeveloped financial system may be viewed as major characteristics of these frameworks.

The restructuring of the real sector required a political will to privatise and liquidate loss- making companies. In turn, there was a need for administrative backing to implement and sustain the will to lift that responsibility off the governments' shoulders. Lack of political will and misconceptions about privatisation and liquidation let the economy lose several years. Therefore, governments retained

1 The policy makers in the Balkans failed to set up and maintain a *rational* reform agenda leading to macroeconomic stabilisation and growth. Even in the case where the *right* policy mix was designed, serious delays were encountered in the implementation of critical elements of the reform agenda. Lack of commitment and coherence was the main characteristics of the policy makers.

2 According to the managers that participated in the research the main source of financing has been the use of own funds. As a result, the demand for bank loan and equity financing for these companies has grown, mainly for medium- term loans for the reconstruction and expansion of existing production

control over the SOE, slowed the liberalisation of economic life and kept the business environment rather unfriendly. In addition, premature liberalisation and opening up of the economies contributed negatively to the development of the Balkan economies as the abrupt lifting of these barriers was equivalent to the reduction of the viability threshold for companies. Bureaucracy and corruption were endemic and privatisation slow, and opaque (Gligorov et al. 1999, 2000, Dobrinsky 2000).

The choices made at the beginning of the systemic changes by the countries are different. Bulgaria and Albania- like Poland and the Czech Republic- began their reforms with liberalisation. Romania on the other hand, began with measures aimed at the decentralisation of the economy. That choice determines the transition models.[3] The process of decentralisation in the Balkans is confronted with similar difficulties and restrictions. The lack of experience of the proper institutions in the area of competition policy is among the basic causes of the complicated and inconsistent nature of the decentralisation processes. Attracting FDI largely depends on the speed of the process of decentralisation of the economy.

3.3 Regional Economic Structures and Performance

The Balkan region is less developed and more backward in terms of transformation than the CEE region. Although the population in the Balkans is only 20% lower than in CEE, the overall GDP of the former group is one quarter of the latter's. Per capita GDP is only one third of the level ten years ago. Looking at per capita GDP levels in table 3.1, the Balkans have around US$ 1,600 or less while the CEE countries 2-3 times that level. Whereas the CEE succeeded in increasing their GDP per capita by 47% in the period 1989- 99, the Balkan countries recorded the decline of 21% in the

facilities. The development of an effective banking sector is a key priority for efficient distribution of financial resources and thus for long-term economic growth.

[3] When reforms begin with price liberalisation, as in Poland and the Czech Republic, a *shock therapy effect* is observed. If the emphasis if on decentralisation, a *gradualism effect* is observed. However, neither transition model is applied in its actual form (UN-ECE 1997, OECD- CCET 1997). The difference consists in the sequence and the extent.

period 1990- 99.[4] Most of the Balkan countries show relatively high economic growth rates following the Kosovo war. Their average rate of GDP growth in 2000 was quite impressive: at 6.0%, it was 2.7% higher than the rate of growth in the CEE countries.

The highest rate of growth in 2000 was in Yugoslavia, a reflection of rising exports and the recovery of industries that had gone into a deep decline during the Kosovo conflict. Albania witnessed a reconstruction-type upswing fuelled by domestic consumption financing from abroad. FYROM and Bulgaria have medium-high rates of growth after years of severe transformational recessions. Romania struggles with slow growth due to protracted transformation. One encouraging characteristic is that all Balkan countries in 2000 witnessed a positive GDP growth rate. That means that a decade of transition was needed for the Balkan to get out of this explicit recession.

Table 3.1 Basic Indicators of the transition economies, 1999- 2000

Country	GDP in USD mn (1999)	GDP in USD mn (2000)	GDP/ Capita USD (1999)	GDP/ Capita USD (2000)	GDP/ Capita USD at PPP (1999)	GDP/ Capita USD at PPP (2000)	GDP Growth, real, % 1990-1998 Average	1999	2000	2001
Albania	3,665	3,871	1,149	1,125	2,420	2,400	-1.3	7.3	7.8	6.0
Bulgaria	12,405	13,025	1,510	1,513	5,170	5,610	-4.4	2.4	5.0	4.8
Yugoslavia	16,450	18,210	1,965	940	2,580	940	-7.1	-19.0	10.7	5.0
FYROM	3,432	3,607	1,699	1,620	4,530	4,524	-1.3	2.7	5.1	6.0
Romania	34,027	34,571	1,515	1,613	5,920	6,240	-2.7	-3.2	1.6	4.1
Average	**13,995**	**14,657**	**1,567**	**1,362**	**4,124**	**3,943**	**-3.3**	**-2.0**	**6.0**	**5.1**
Czech Republic	53,118	54,286	5,166	5,640	13,030	13,750	-0.5	-0.2	2.2	3.0
Hungary	48,203	50,854	4,790	5,460	11,190	12,230	-0.6	4.5	5.5	5.5
Poland	154,146	161,082	4,024	4,410	8,840	9,440	1.8	4.1	4.5	5.0
Slovakia	18,842	19,218	3,654	4,010	10,710	11,260	-0.2	1.9	2.0	3.0
Slovenia	20,011	20,911	10,078	11,000	15,580	16,790	0.4	4.9	4.5	4.5
Average	**58,864**	**61,268**	**5,542**	**6,104**	**11,870**	**12,694**	**0.18**	**3.0**	**3.7**	**4.2**

Source: Hunya 2000, EBRD Transition Reports 2000- 2001.

Taking the figures per capita in PPP USD as an indicator from table 3.1, we find great differences between the Balkan countries. Romania appears in 2000 to be the most developed country in the region with a GDP per capita level equal to US$

[4] All Balkan countries have experienced a deep recession after 1989. The characteristics of this recession are the significant drop in output, the soaring inflation rates as a result of the market liberalisation- the inflation in Yugoslavia was a result among other things of the civil wars and embargoes, while in the other Balkan countries it can be attributed to the delayed reforms- and the high unemployment rates. Only Bulgaria and Romania have relatively modest rates of unemployment but these are more a reflection of delayed restructuring policies, designed to avoid or reduce social tension, rather than of an improvement in underlying economic performance.

6,240, while Yugoslavia appears to have the lowest GDP per capita PPP at US$. Second, using the same indicator, the Balkans are well behind the more advanced transition countries of the CEE region.

While economic performance in these two regions was undoubtedly highly divergent during the course of transition, the difference in the growth patterns has recently surfaced as one of the main characteristics of this dividing line. Most countries, with the exceptions of Romania and Yugoslavia, have made considerable progress towards macroeconomic stability. However, this progress towards macroeconomic stability has not been sufficient to set them on the path of sustained recovery.

3.3.1 Flows of FDI to the Balkan Markets

Being geographically remote from the EU markets, the negative side effects of sanctions and civil war from 1992 to 1998 on Yugoslavia were detrimental for the Balkans and in effect amounted to a strong external shock that added to an already severe transformational recession. Political instability in the region has been a strong deterrent to FDI, unlike the CEE economies. Regional trading links have been broken during a decade of military conflicts and sanctions adding to the impediments for significant FDI in the region.

Table 3.2 FDI Inflows in the Balkans (in USD million)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	4	55.9	41.5	58	53	70	90	48	45	41	143
Bulgaria	4	56	41.4	102.4	210.9	162.2	256.4	636.2	620	755.3	1000
FYROM	0	0	0	19.1	24.0	9.5	11.2	30.8	120.3	38.07	104
Romania	0	710.9	363.5	414.3	907.6	322.4	720.6	1215	2031	1023	1000
Yugoslavia	0	0	0	0	0	0	0	728	103	103	54

Figures from EBRD Transition Report 2000

Albania:

While remaining stagnant at US 41 mn in 1999 due to the spillover effect from the Kosovo conflict, FDI in Albania tripled in 2000. Looking at the data in table 3.2, FDI into Albania has been relatively limited over the past decade; the figures include both greenfield investment and investments as part of the privatisation process. This suggests that after privatisation is completed the amount of new investment in greenfield projects might be very low unless a new FDI policy is developed and more vigorous promotion initiatives introduced. FDI in Albania remains low, and will only increase with continued political and macroeconomic stability, and the achievement of greater security. Recent changes to the tax legislation by removing tax incentives for foreign investors are not encouraging.

BULGARIA:

Looking at the data in table 3.2, between 1992- 96, Bulgaria absorbed about US 773.3 million in FDI. After the change in government in 1997 and the perceived improvement in the investment climate, FDI increased, reaching US 636.2 million for that year alone. Over 1998, Bulgaria attracted US 620 million in FDI, substantially less than the projected US 1 billion.[5] Because of macroeconomic stabilisation and privatisation efforts, FDI inflows rose to a record US 1 billion in 2000, with privatisation- related inflows accounting for almost half of the total. Finally, while foreign investors are increasingly launching greenfield projects, yet they have shown little interest in taking over and restructuring inefficient privatised companies. Despite increased FDI inflows in the past three years, FDI is still hampered by unclear legislation and overly bureaucratic procedures. However, these impediments are a result of the reform measures introduced by the government. The government has undertaken a series of legal reforms, resulting in frequent changes to laws and regulations relevant to domestic and foreign investors alike. However, the administrative reforms were often not pursued with the same vigour, resulting in administrative procedures not being in line with new legislation.

FYROM:

In the early years of independence, FYROM's attempts to attract FDI were seriously hampered by the uncertainty surrounding the future of the country and its ability to survive. Therefore, looking at the data in table 3.2, between 1993 and 1996 FYROM attracted only US 63.8 million. The increased investor interest peaked in 1998 with US120 million invested, against US 30 million over 1997, and only US 11 million

[5] Such a projection was conditional on the expected sale of a number of SOEs, most notable the Telecommunications company. The crisis of confidence affecting investors following the Russian crisis, and concerns about the war in Kosovo also contributed to this lower than anticipated result.

the year before that. By 2000, total FDI had reached US 357 million. The investment climate is still quite difficult for the SME sector. Interest rates and social security costs are high, and registration procedures are complicated. Yet, the country has now reached a stage in its transition where the SME sector has the potential to expand rapidly and become the main engine for growth in the economy.

ROMANIA:

Looking at the data in table 3.2, Romania has attracted the biggest share of FDI in the Balkans. However, attracting FDI has not been in the focus of the governments' economic policy in the last few years. This negative position can be mainly explained by the strong influence of local economic interests. Political stakeholders and their economic associates are in no way xenophobic. They just feel that they cannot compete with foreign investors in an open and transparent environment and try to maintain an advantage by keeping foreign investors at a distance.

YUGOSLAVIA:

From the data in table 3.2, it is evident that Yugoslavia has attracted the lowest share of FDI in the Balkans. The government has already initiated measures to liberalise the trade regime that would also help to attract FDI. Yet, FDI inflows will unlikely increase considerably until the current uncertainties surrounding the political and economic situation wither away. The economy continues to carry the burdens of a lack of working capital, low utilisation of industrial capacity, high unemployment, extremely low investment, high public expenditures, and the illiquidity of banks and companies. A major problem for FDI is the inefficiency of capital markets. Most commercial banks suffer severe liquidity problems and have not yet adjusted to market- based operations. The restructuring of the banking system will be vital for the success of the economy. Privatised and newly emerging companies will need a well- functioning and capitalised banking system, if they want to invest and expand.

The importance of FDI for the development prospects of the Balkans is in the fact that, beyond financing, it can accelerate the recovery of the economies from the recession, and provide considerable positive effects, such as the transfer of modern technology and growth of exports. It is more realistic to expect FDI inflow in privatisation related projects than in greenfield projects, which are much more sensitive when investment climate, as the one in the Balkans, is in question.

FDI in the Balkans is impeded by entry and exit conditions. Looking at exit first, we argued that no country has introduced and implemented bankruptcy laws properly. Though production has fallen rapidly, exit is less than prompt and most of the region is still going through the transitional recession. There have been problems with the creation of new companies. The barriers that new businesses face are those that have to do with the availability of finance,[6] the availability of markets, business regulation and taxation.[7]

The Balkan region certainly has some advantages for attracting FDI, including the availability of qualified and cheap labour, and a domestic market with a growth potential. Unfortunately, there are many more obstacles to these inflows. The most serious among them are the high political and commercial risks, the poor infrastructure, and the completely discontinued transition process in the region. In the Balkans, there are no institutional mechanisms, which would assist the development of the SME sector as well as the restructuring of existing companies. This sets a major limitation for FDI and is a serious obstacle to more active participation in company restructuring and the acquisition of new knowledge suitable in transition.

Regarding the political risk, four managers from the mining, eighteen managers from the food and beverage companies and two managers from the telecommunication companies, changes in government policies caused problems related to repatriation of earnings and the financial obligations of the Greek companies towards their Balkan partners. The reason, according to the above twenty- four Greek managers, is

---

[6] There are certain problems with the financing of new companies in the Balkans. One has to do with the non-availability of certain financial services. The other problem is the non-existence of credit lines for start up companies that have no collateral to support their investment plans. This is the consequence of the non-existence of supported financing schemes for SME. The third problem is the high interest rates for loans that are available (East West Institute 2000: 19).

[7] The tax structure is primarily based on direct taxes and only partially on indirect taxes, a situation that is not consistent with a modern market economy. The tax system does not fulfil the criteria of

that the Balkan governments believe that the above three industries have the potential to modernise the production capacity of their countries. Therefore, the authorities found *mechanisms* to influence the amount of earnings the companies could repatriate. The retained funds were used for further investments in the host countries. Regarding the financial obligations of the Greek companies towards their partners, the twenty- four managers further reported that when a new government was elected in any Balkan country demanded higher and higher financial contributions from the Greek companies to the capital structure of their Balkan partners. The new governments have decided that the price paid a few years ago to acquire the shares of a SOE does not reflect its present business value. Therefore, a re-evaluation of the initial agreement had to be drawn from beginning in order to set a price for the purchase of the remaining shares of the companies. This was a direct way to exert pressure on the Greek investors and an indirect way to increase the state revenues.

In addition to the problems in privatisation and financial market institutions, all the Greek investors have complained about the high level of instability and unpredictability in the region. However, this complaint also refers to tax and other special rules under which foreign investors have operated. For investors, who are obliged to make outlays in the present under the expectations of returns only in the future, stability and clarity in rules and conditions are of primary importance.

3.3.2 Regional Market Structures and Performance

Bulgaria and Romania began transformation much later than Hungary and Slovenia, starting under difficult circumstances, suffering from economic underdevelopment, but both remain politically committed to liberalisation and European integration. FYROM has confronted numerous economic crises related to its relative under-development, remoteness from European markets and domestic political problems. Burdened by the legacies of underdevelopment and then hampered by the absence of

---

efficiency, neutrality, equity, transparency and simplicity. The reform of the present tax system is therefore a priority (East West Institute 2000: 19).

viable state institutions, Albania has staggered from one crisis to another.[8] Yugoslavia occupies a special position in the context of the transition. Being one of the relatively large economies in the Balkans and strategically located on the main transport routes to Western Europe, it is both an important market for neighbouring countries and an important transit country. However, the economy has been in a parlous state for a long time, suffering from the break-up of the former Yugoslavia, leading to the loss of markets, and then from four years of conflict and international sanctions.

One of the tests verifying the market quality of the physical and human capital in transition economies and its capability to adjust to market conditions is the ability to produce output which is marketable on the international markets. Looking at table 3.3, the dynamics of both industrial output and of exports during the past decade are indicative of the differences in the adjustment to the new market pressures between the Balkans and the CEE. While aggregate gross industrial output in the Balkans in 1999 was still less than half of its 1989 level that in the CEE had practically recovered from the transformational decline. The divergence in export performance has been more pronounced. While the value of the CEE aggregate exports has more than doubled during the last decade, in 1999 Balkans' aggregate dollar exports were still below their 1989 level. The knock-on effect of price and trade liberalisation was equivalent to the erosion of a large share of the existing physical and human capital and hence in considerable losses in output generating capacity.[9]

[8] Albania and FYROM have growing relatively rapidly largely on the basis of low value added products, whereas Bulgaria, Romania and Yugoslavia have been growing more slowly while building a more advanced industrial base. At this point it is important to say that under the previous economic system, Albania and FYROM were self- supporting countries with a low degree of industry specialisation. Therefore, local companies have not established any strong alliances with companies from other more advanced socialistic countries; thus, it was extremely difficult for these companies to seek foreign business partners at the beginning of transition.

9 The determinant of the falling has been the reduction of the growth potential caused by a decline in the available and employable production factors.

Table 3.3 GDP, industrial output and exports in transition economies 1991- 2000

	GDP			Gross industrial output			Dollar exports		
	Average annual rates of growth (%)			Average annual rates of growth (%)			Average annual rates of growth (%)		
Country	1991-95	1996- 99	1991- 99	1991- 95	1996- 99	1991- 99	1991- 95	1996- 99	1991- 99
Albania	-2.1	4.3	0.5	-22.7	-1.4	-13.9	-2.6	5.5	0.9
Bulgaria	-2.6	-4.7	-2.9	-7.5	-7.1	-7.3	0.5	-8.2	-3.5
Romania	-2.1	-2.5	-2.9	-7.1	-7.1	-7.1	11.6	0.4	6.5
FYROM	-5.5	2.0	-2.4	-13.7	0.7	-7.5	1.6	-2.2	-0.1
Yugoslavia	-13.7	0.2	-9.2	-15.7	-3.9	-10.6	-19.9	-0.5	-11.8
Czech Republic	-1.1	0.4	-0.4	-5.4	1.0	-2.6	19.1	5.0	12.6
Hungary	-2.4	3.9	0.4	-2.5	8.7	2.3	6.2	17.5	11.1
Poland	2.2	5.4	3.6	4.4	6.3	5.2	9.8	3.2	6.8
Slovakia	-2.9	5.1	0.6	-5.1	2.8	-1.7	16.1	4.1	10.6
Slovenia	-0.6	3.9	1.4	-4.3	1.0	-2.0	15.1	1.6	8.9
	GDP			Gross industrial output			Dollar exports		
	Average annual rates of growth (%)			Average annual rates of growth (%)			Average annual rates of growth (%)		
Country	1999	2000	1999-2000	1999	2000	1999-2000	1999	2000	1999-2000
Albania	7.3	7.8	7.6	16.0	12.0	14	28.3	-10.0	9.2
Bulgaria	2.4	5.0	3.7	-12.3	2.3	-5.0	-4.5	20.0	7.7
Romania	-3.2	1.6	-0.8	-7.9	8.2	0.2	2.4	21.9	12.2
FYROM	2.7	5.1	3.9	-2.6	3.5	0.5			
Yugoslavia	-19.0	10.7	-4.1	-23.1	10.9	-6.1	-47.6	15.1	-16.2
Czech Republic	-0.8	3.1	1.2	-3.1	5.1	1.0	-0.4	10.4	5.0
Hungary	4.4	5.2	4.8	10.4	18.3	14.4	8.7	12.3	10.5
Poland	4.1	4.1	4.1	4.8	7.1	5.9	-2.9	15.5	6.3
Slovakia	1.9	2.2	2.1	-3.6	9.1	2.8	-4.6	15.8	5.6
Slovenia	5.2	4.8	5.0	-0.5	6.2	2.8	-5.6	2.2	-1.7

Source: Dobrinsky 1999, UN/ECE various publications, own calculations

The impact of weak foreign demand was manifest in the trade performance. The dollar value of total east European trade in 1999 was lower than in 1998, the first time it had fallen since 1991. In the Balkans, the fall in the value of total exports and imports was particularly large. Looking at table 3.3, the trade figures for 1999 reflect the lagged effects of the 1998 crisis. On the contrary, in 2000, the rate of growth of dollar exports was in the double digits in almost all of the Balkan countries. The strong growth in the demand for exports from the region had three consequences: (i) it stimulated growth in manufacturing output; (ii) it stimulated higher rates of capacity utilisation and fixed investment; (iii) it encouraged more efficient use of existing capacities and raising expectations for FDI.

Structural deformation or structural development delays characterise the Balkans. The figures in table 3.4 demonstrate an unprecedented restructuring that will take time to readjust to the natural optimum levels. The countries of the region show a relatively similar picture for the level of industrialisation in 1991- 1998.

Table 3.4 Composition of GDP (%) in transition economies 1990- 2000

	Agriculture			Industry and Construction			Services		
Country	1990- 95	1996- 98	1991- 98	1990- 95	1996-98	19991-98	1990-95	1996-98	1991-98
Albania	50.1	53.7	51.5	29.0	23.0	27.4	20.9	23.3	21.1
Bulgaria	13.5	14.6	16.0	38.3	31.9	35.2	48.2	53.5	48.8
Romania	20.7	10.4	20.2	43.5	42.2	43.2	35.8	37.4	36.6
FYROM	11.3	12.8	11.8	34.8	28.9	32.9	54.0	58.3	55.3
Czech Republic	5.5	4.6	5.2	45.8	41.0	44.4	48.7	54.3	50.5
Hungary	7.5	6.7	7.0	32.6	30.8	32.5	60.0	62.5	60.5
Poland	7.5	7.2	7.1	42.5	38.8	40.5	50.0	54.0	52.0
Slovakia	6.1	5.8	5.8	44.5	38.3	41.6	49.4	55.9	52.6
Slovenia	5.2	4.5	4.9	40.2	37.6	39.3	54.6	58.0	55.8
	Agriculture			Industry and Construction			Services		
Country	1999	2000	1999-2000	1999	2000	1999-2000	1999	2000	1999-2000
Albania	52.6	51.0	51.8	25.4	26.3	25.8	22.0	22.7	22.4
Bulgaria	17.3	14	15.6	26.8	28.6	27.7	55.9	57.4	56.6
Romania	15.5	11.4	13.4	36.2	42.0	39.1	48.3	46.6	47.4
FYROM	9.2	8.6	8.9	27.1	28.4	27.7	62.9	63.0	63.0
Czech Republic	3.7	3.4	3.5	38.2	38.3	38.3	58.9	58.3	58.6
Hungary	4.9	5.2	5.1	36.0	36.5	36.3	58.6	58.3	58.5
Poland	3.9	3.7	3.8	35.8	36.8	36.3	60.2	59.5	59.9
Slovakia	4.9	3.8	4.3	36.9	35.9	36.4	61.0	60.3	60.6
Slovenia	3.7	3.6	3.7	38.3	39.8	39.1	58.0	56.6	57.3

Source: IMF: Country Reports, Various Issues, WIIW, and EBRD Various Issues

Looking at the data in table 3.4, of the sectoral GDP composition, we can observe with respect to the type of structural adjustment under way that Albania was the least industrialised country, with a 27.4% of its GDP generated from the industry and construction sectors. During the period 1991- 98, Romania's industrial and construction index was the highest not only compared to the Balkan countries but also compared to most of the CEE countries, except for the Czech Republic. Second, the GDP structures of the Balkans have a greater dependence on agriculture that the CEE countries, with the cases of Albania being the most profound.[10] Although in 1999- 2000 the indicators for the Balkans have been improved for the agriculture and services shares, yet the Balkans are less industrialised than the CEE countries.

10 Romania, Bulgaria and FYROM despite their differences represent more industrialised economies, while Albania lag behind. Albania has the highest share of agriculture in GDP. Bulgaria and Romania, although far from Albania, still show a high percentage of agricultural share in GDP. FYROM is less rural country but still has higher shares of agriculture in GDP than the CEE countries. These figures might indicate a possible divide in the transition countries with the Balkans having a less advanced economic structure than the CEE countries. Albania maintains one of the lowest shares of industry and services in the region, experiencing a backward adjustment to the pressures of transition.

While most of the transition countries have liberalised their economies, the Balkan region has continued to be full of barriers and restrictions. The consequence has been that the region has continued to experience trade and other policy-induced shocks.[11] It has also motivated most of the states in the region to consider advancing either on the path of regional or on that of European integration. As the EU has conditioned further EU integration on further regional integration for many of the Balkan countries, the level and development of regional trade and economic integration has become an important institutional and policy issue.[12] Development depends crucially on the business environment, while the success of transition is determined by the commitment to institutional change.[13] If these problems are not addressed decisively, the old barriers to trade and FDI will continue to persist.

The Balkan counties had very unbalanced industrial structures. Some countries inherited large debt burdens. With the emergence of the transition, new challenges confront organisational structure. Porter (1990) considers that the performance of an industry depends on a strong competition policy. This contradicts the performance of the Balkan economies under the communist regime. The total lack of competition and the organisation of most industries in monopolies led to very poor performances and subsequently urgent need to restructure them when transition started.[14] The process of privatisation and FDI therefore strongly depends on the speed of creation of proper institutions in the area of competition policy.

[11] The barriers to trade and development in the region and between the region and the world are partly the consequence of the slow transition and partly a result of the failure to deal with the problem of development. Because of the lack of regulation the Balkan markets cannot be described as liberal. Their illiberal character is visible in the conditions that determine entry to and exit from the market.

[12] Similar considerations apply to FDI flows. A high level of investment usually accompanies a high and growing level of foreign trade. Thus, trade creation should be followed by investment creation, and trade destruction by a lack of investment opportunities. Security concerns affect investments even more than they affect trade, so that a low level of FDI, especially that which is regional, will be, *ceteris paribus*, a sign of high security and political risks. Given that security risks are a form of instability a high level of risks will also indicate a high level of regional disintegration.

[13] Privatisation is the most important institutional change when it comes to the efficient allocation of resources. In the Balkans, delay in privatisation can be often observed. Another aspect of privatisation has to do with the disintegration of the region, which led to decreased interest of foreign participation in privatisation. The regional risk has had an influence that cannot de disregarded. Therefore, it is necessary to create incentives for FDI that out-weigh the systematic regional risks.

[14] Limited progress in improving competition structures has been achieved across the region. While most states have taken some steps to tighten credit and subsidy policies, soft budget constraints still exist in the Balkans. The most direct way of governmental support is through soft government loans.

3.3.3 Assessing the Progress of Transition in the Balkans

In this section, we are going to assess the process of transition in each of the Balkan countries based on the findings of the EBRD's transition reports and own research. The findings of this section are summarised in table 3.5.

Table 3.5 Transition Indicators in 2000

		Enterprises			Market & trade			Financial institutions		Total	Average
	Private sector share in GDP (%)	Large scale privatisation	Small scale privatisation	Governance and restructuring	Price liberalisation	Trade and FX system	Competition policy	Banking reform and interest rate liberalisation	Securities market and non bank financial institutions		
CEE	76.0	3.07	4.33	3.06	3.20	4.33	2.93	3.40	3.26	27.58	3.4475
Czech	80.0	4.00	4.33	3.33	3.00	4.33	3.00	3.33	3.00	28.32	3.5400
Hungary	80.0	4.00	4.33	3.33	3.33	4.33	3.00	4.00	3.66	29.98	3.7475
Poland	70.0	3.33	4.33	3.00	3.33	4.33	3.00	3.33	3.66	28.31	3.5387
Slovakia	75.0	4.00	4.33	3.00	3.00	4.33	3.00	3.00	2.33	26.99	3.3737
Slovenia	55.0	3.00	4.33	2.66	3.33	4.33	2.66	3.33	3.66	27.30	3.4125
Baltic	70	3.33	4.33	2.77	3.00	4.22	2.55	3.22	2.77	26.19	3.2737
Estonia	75.0	4.00	4.33	3.00	3.00	4.33	2.66	3.66	3.00	27.98	3.4975
Lithuania	70.0	3.00	4.33	2.66	3.00	4.00	2.66	3.00	3.00	25.65	3.2062
Latvia	65.0	3.00	4.33	2.66	3.00	4.33	2.33	3.00	2.33	24.98	3.1225
SEE	61.0	2.73	3.66	2.13	2.67	3.60	1.86	2.66	1.73	20.97	2.6215
Albania	75.0	2.00	4.00	2.00	3.00	4.33	1.66	2.66	1.66	21.25	2.6562
Bulgaria	70.0	3.66	3.66	2.33	3.00	4.33	2.33	3.00	2.00	24.31	3.0387
FYROM	55.0	3.00	4.00	2.33	3.00	4.00	2.00	3.00	1.66	22.99	2.8737
Romania	60.0	3.00	3.66	2.00	3.00	4.00	2.33	2.66	2.00	22.32	2.7900
Yugoslavia	45.0	2.00	3.00	2.00	1.33	1.33	1.00	2.00	1.33	13.99	1.7487

Source: EBRD Transition Report 2001

In Albania, the process of large-scale privatisation at the early stage of transition was characterised by little private ownership. The economic programme in 1991, contained measures of privatisation strategy very similar in its broad aims to those adopted in the Czech Republic.[15] However, the government could not embrace reforms in a coherent way because of its attitude to transition policies. The government so far had difficulties to privatise strategic sectors that would attract significant inflows of foreign investment. On the contrary, small- scale privatisation has been more successful and it was pursued at a speed, which compares favourably with that achieved in the CEE countries. Due to the absence of coherent privatisation policies, the small- scale privatisation proceeded faster than the privatisation of state-owned banks and the restructuring of the capital market. Regarding the process of

[15] The idea behind the model was based on the assumption that the state should eliminate the state from making business decisions, and to develop a system, open enough to evaluate from within itself (Aslund and Sjoberg 1992).

governance and restructuring, the early transition process was characterised by moderately tight credit and subsidy policy, but little action was taken to strengthen the bankruptcy legislation The government has made progress on price liberalisation, reflecting economic costs. Regarding the competition policy, the government is in the process of reducing the market power of monopolies, including brake- ups of dominant conglomerates. However, in this respect much more has to be done. As far as the banking reform and interest rate liberalisation is concerned, there is a significant progress of interest rates and credit allocation and there is a market potential for foreign financial institutions, but yet much work has to be done.

In FYROM, the process of transition is quite similar to the one in Albania. However, it performs better in large- scale privatisation. The process of corporate governance and restructuring, small scale privatisation, price liberalisation, and the reforms on securities markets and non bank financial institutions have the same characteristics with Albania, yet FYROM has performed slightly better on competition policy and banking reforms.

In Bulgaria, as well as in Romania, the process of transition is satisfactory. More than 50% of SOEs are in private ownership and significant progress on corporate governance has been achieved on these enterprises. The success of small- scale privatisation can be also attributed to a big number of foreign SMEs that have invested in the Bulgarian and Romanian markets. In Bulgaria, the process of governance and restructuring is more advanced than in Albania, while in Romania it is the same. The two governments have achieved substantial improvements in corporate governance, by implementing control measures and motivate new investments at the enterprise level. Furthermore, the price liberalisation process is very comprehensive, reflecting economic costs. There are significant actions on the behalf of the two governments to reduce abuse of market power and to promote a competitive environment, which will generate efficient allocation of resources. As far as the banking reform and interest rate liberalisation is concerned, there is a substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation. Measures included first the full interest rate liberalisation, second the significant lending to private companies and third the significant presence of private banks, with Bulgaria performing slightly better.

The Yugoslav government has continuously implemented measures of strong administrative control rather than liberalisation. Price liberalisation has been partial, even reversed on several occasions by general or selective price freezes. The government recently adopted a competition law. Yet, since the economy remains highly monopolised, it seems clear that the law is not being implemented. In addition, small- scale privatisation has been partially implemented, resulting mainly in widespread ownership by insiders. Large SOEs have still not been privatised though current financial constraints may compel the government to start selling shares in the most profitable companies. Privatisation is impossible without radical economic reforms and inclusion in international financial institutions. Finally, little progress has been made in reforming banks and other financial institutions. Banks are heavily burdened by enormous amounts of bad loans.

Although the expectations of privatisation-related FDI are high, to expect an intensive inflow of that type of FDI in Yugoslavia would not be realistic. The country's capital stock has been halved. This is a consequence of permanent disinvestments during the last decade, and extensive damage of infrastructure and productive capacity during the NATO air strikes. To attract more privatisation related FDI, the government has to reconsider the shift of privatisation method from the distribution of property to direct sales to strategic foreign investors.[16]

Progress has been made in the development of the private sector in virtually all countries in the region. Over the first five years of transition, this share was 39%. In 2000, 48% of the GDP of the Balkans were produced by private sector entities. Today, the private sector currently generates almost 60% of GDP in all countries in the region, except FYROM and Yugoslavia. Nevertheless, this share remains low in comparison to the CEE economies. Alongside the progress in establishing private

[16] It is mainly the supply of state assets that determines the amount of privatisation-related FDI. Some governments, such as the Albanian, have in fact not much to sell as assets available for privatisation have already been given away in to insiders at large, leaving little scope for foreign investors.

sector activity, progress also has been made in liberalising markets and trade and foreign exchange (FX) systems. Trade and FX regimes have been relaxed and many quantitative and administrative import and export restrictions have been lifted. Yet, a further lowering of trade protection, through the elimination of non-tariff barriers, more uniform and lower tariff structures, is still warranted. This is important especially in light of the need to integrate more closely with Western Europe. Price liberalisation has also seen substantial progress and state procurement at non-market prices has been largely phased out. Competition policy and legislation have been set up, yet enforcement actions to reduce abuse of market power have been limited.

The banking system is of crucial importance to economic performance. A special feature is the underdevelopment of capital markets. Therefore, banks became the primary institutions to perform assessment and monitoring of the risks and returns of financial intermediation. The initial conditions regarding market-orientated reforms in the banking sector were not favourable for a prompt transition and they still have an impact on banking system development.[17]

In the Balkans, the small-scale privatisation has advanced more rapidly than the large-scale privatisation, creating a new entrepreneurial class. The new SME act as an agent of open economy, acting as intermediates between the old economic paradigms and the new market forces. However, there is considerable variation in the growth of small private companies throughout the region. To a significant extent, this is due to the differences in the quality of governance across countries. Furthermore, the formal ownership changes in the Balkans based on the mass privatisation scheme did not bring sufficient clearness in the actual exercising of ownership rights.

Institutions such as capital market and financial institutions did not always follow the reform processes of privatisation and liberalisation. The first phase of transition,

17 The financial sector is not yet providing the effective intermediation necessary for sustaining growth. Banks are still not prepared to shift towards financing enterprises and developing the infrastructure for an expansion of retail banking while the countries remain burdened with large, state-controlled banks with sub-standard portfolios. The effective functioning of these markets exerts pressures for better business practices and more rigorous corporate governance. Thus, it would be necessary to find a way to insure the banking sector so that it could offer credit possibilities that

show that a lack of market institutions can jeopardise sustainable macroeconomic results and growth performance. Therefore, there is a need for developing new institutions that will advance and support reforms. The quality of the new institutions reflects the maturity of the Balkan markets. The markets have been developed in an environment of weak rules of law and low state financial capacity, representing transitional institutions that need time to reach a market economy standard. However, the extent to which Balkan countries can secure property rights and contracts and enforce competition policy is crucial for success during the second transition period.

It is important for the governments to continue to emphasise capital market development, so that they can use the stock exchange for public offerings connected with privatisation. There is a need to streamline decision-making and make on institutions responsible for privatisation. The institutions should have sufficient authority and independence to carry out their mandate. Standardising the privatisation process so that clear transactions are being handled will facilitate this. Greek investors believe that the Balkan governments should do as much as possible within existing legal framework rather attempting to amend everything, as constant changes contribute to uncertainty and slows down the privatisation process considerably.

Enterprise restructuring has been slowed by the ineffective implementation of bankruptcy laws. Though most countries have adopted bankruptcy laws, the number of bankruptcies and liquidations has been relatively small. The wide variation across the Balkans in privatisation strategies and in the organisation and functioning of securities markets has produced a broad range of corporate governance structures.

Countries should devote much greater effort to microeconomic issues, structural reform, and completing the transition to market economies. Macroeconomic stability alone is not a sufficient condition for sustainable economic development.[18]

---

would support start up activities for SME. Therefore, setting up appropriate financial institutions that would offer credits and also lower the risks of doing business would be crucial.

[18] There is a perception that pursuing sound fiscal and monetary policies constitutes economic success. The governments must to privatise the SOEs, reform the legal and regulatory regimes and strengthen their financial systems. A key fiscal challenge is to control government spending by

Regulations governing the creation and operation of private-sector companies need to be liberalised. The financial system needs fundamental reform to create well-regulated, well-supervised market-orientated banking systems.

Summarising the above evidence, the creation of a sound and favourable business environment must be based on a stable legal framework that clearly defines property rights; on efficient administrative and legal structures that ensure enforcement of the law and contractual obligations; and on the development of market competition, reduction of transaction costs, and lowering of the tax burden. It should also support specific steps aimed at encouraging the development of the SME sector.

3.4 Regional Trade and Integration

Over the last decade, the EU has emerged as the most important trading partner for the majority of the Balkan countries. Given that most Balkan countries, except for FYROM, have redirected trade from their traditional partners primarily to the EU, the already marginal links between Balkan countries have in no way been strengthened, while trade links among Albania, Bulgaria and Romania have become even weaker. Over 50% of the region's trade is to and from EU countries. Looking at table 3.6, overall, regional trade is very limited.[19] Balkan countries trade mostly with industrialised countries, and to a lesser degree with one another mainly for four reasons; (i) this is because regional integration of a low-income economy with low-income countries usually makes an economy poorer; (ii) the demand in the Balkans is weak and relatively unsophisticated, and competitive companies chose more complex markets; (iii) the countries in the region have relatively similar product and quality structures; (iv) the economic and political instability of the regional markets as well as the tariff and non-tariff barriers impede regional trading.

---

restricting expenditures on unprofitable SOEs and reforming the tax system to improve revenue collection. On the monetary front, they should adopt a clear mandate to maintain price stability.

19 The low volume of trade implies even less adequate forms of economic co-operation. This is because foreign trade always creates a basis for the development of higher forms of international economic co-operation. This phenomenon can be explained by a relative underdevelopment of the region, as well as the model of inward- looking economic development followed by all countries in the region. This situation along with an unfavourable location in the EU economic space resulted in unfavourable implications for the economic structures and international trade performance of these countries. The absence of regional trade cooperation has limited the market access for exporting industries, limiting the prospects for export- led development.

At the beginning of their transformation process, all economies faced a dramatic decline, both in exports and imports as well as a geographical reorientation of trade to developed market economies, mainly to the EU. The new orientation towards the EU may be attributed to the operation of the market mechanisms. The loss of the CEE, CIS, Russian and the regional markets is not a direct result of the market mechanisms but is more a result of the political and economic processes in these countries that lead to the destruction of previous stable trade patterns.

Table 3.6 Balkans- EU Direction of Trade 1995- 2000 (in % of total)

Exports	1995	1996	1997	1998	1999	2000	Imports	1995	1996	1997	1998	1999	2000
Albania							**Albania**						
EU	79	86	87	93	94	91	EU	77	76	84	83	80	76
Balkans	5	4	7	2	3	1	Balkans	11	10	6	5	7	6
Other	15	10	5	5	4	8	Other	12	14	11	12	13	18
Bulgaria							**Bulgaria**						
EU	39	40	45	51	54	52	EU	38	36	42	46	50	45
Balkans	13	11	7	7	10	12	Balkans	4	3	3	3	2	4
Other	48	49	48	48	36	36	Other	57	60	55	51	48	51
FYROM							**FYROM**						
EU	34	43	37	44	45	49	EU	40	39	37	36	40	48
Balkans	34	32	33	29	31	30	Balkans	29	21	22	22	20	19
Other	32	25	30	27	25	21	Other	31	40	41	42	40	33
Romania							**Romania**						
EU	54	56	57	65	66	67	EU	51	52	52	58	61	57
Balkans	2	2	1	3	3	4	Balkans	1	1	1	1	1	1
Other	44	42	42	32	31	32	Other	48	47	46	41	38	42
Yugoslavia							**Yugoslavia**						
EU	58	76	83	73	70	68	EU	72	67	76	65	61	57
Balkans	4	3	3	7	8	9	Balkans	8	14	5	8	12	18
Other	38	21	14	21	22	23	Other	20	19	20	27	28	25

Source: National Customs Departments and Institutes of Statistics.

Albeit these common characteristics, all the Balkan countries have not experienced the same depth of trade integration with the West and particularly with the EU. For all the countries, a re-integration of markets is essential for the attraction of FDI.[20] Low tariffs and simple tariff systems as well as free-trade agreements can be useful steps.

In the case of Bulgaria and Romania, the foreign trade developments are volatile. The volatility is mostly caused by the changes in the trade regimes and policies as well as in macroeconomic developments and lack of vigorous reform programmes rather than by security concerns and involuntary trade diversions. Bulgaria has

20 All the above considerations suggest that, given the level of regional trade integration, the Balkans as an economic region is practically non-existent. Trade liberalization is not enough to bring in trade diversion in the presence of a very strong attractor like the EU. Apart from low levels, trade is volatile in the Balkans. That shows that the volatility is generated in the region or that it is caused by the developments in the region. This being the case, the Balkans can be seen as a trade-averting region and one of trade destruction rather than creation. The fundamental reason for this is that of lack of security.

developed EU trading links, orientated towards Germany, Italy and Greece. Romania has redirected its trade developing strong links with the EU markets, and in particular with Germany, Italy and France. On the contrary, the neighbouring markets of Bulgaria and Hungary correspond to a minimum fraction of Romania's trade. Trade liberalisation in Albania led to a surge primarily in imports. However, due to a complete economic collapse in 1997, trade with many Balkan countries experienced a drop, as did its overall foreign trade. The opening up of Albania, which was previously probably the most closed country in Europe, in terms of trade, has led to only a small increase in its trade in the region and to a much larger increase in trade outside of the region. Indeed, that activity has continued even after the economic collapse in Albania. In the past decade, Yugoslavia suffered from a high trade deficit. In 1998, foreign trade lost its pace due to the slow down of the economy and imposed sanctions from the EU and the US as a consequence of the Kosovo crisis.

Table 3.7 Share of exports and imports in GDP (%)

	Exports					Imports				
	1990	1994	1998	1999	2000	1990	1994	1998	1999	2000
Czech Republic	18.3	37.4	47.8	50.6	52.7	20.1	40.1	52.3	54.1	58.9
Hungary	28.7	25.8	48.9	51.1	55.3	26.0	35.2	54.7	57.2	63.2
Slovakia	37.4	48.5	50.2	51.8	61.8	42.0	46.4	61.5	57.4	66.5
Slovenia	23.6	47.2	46.4	43.0	46.7	27.0	43.0	50.5	49.5	54.3
Poland	26.7	18.5	19.1	17.0	19.7	20.8	23.3	27.8	26.2	30.4
Average	**27.0**	**35.5**	**42.5**	**42.7**	**47.2**	**27.18**	**37.6**	**49.4**	**49.9**	**54.7**
Albania	11.0	7.1	8.4	7.7	9.3	18.1	30.3	32.9	32.9	29.3
Bulgaria	21.7	40.5	40.3	29.8	39.9	26.4	40.7	43.6	41.1	54.5
FYROM	n.a.	34.5	38.6	32.6	38.8	n.a.	40.4	48.9	49.1	61.0
Romania	11.5	20.2	25.7	23.4	32.1	17.5	21.8	34.0	28.7	39.3
Yugoslavia	19.8	12.0	15.4	8.5	10.3	26.3	14.5	26.1	18.7	22.0
Average	**16.0**	**28.6**	**25.7**	**20.4**	**26.1**	**22.1**	**29.5**	**37.1**	**34.1**	**41.2**

Source: EBRD Transition Reports, various volumes, WIIW, various issues and National Bank of Greece- Strategic Planning and Research Division.

Looking at the share of exports and imports in GDP in table 3.7, the Balkans is lagging behind the other regions to a considerable extent and this applies especially to Albania and Yugoslavia. The Balkans also took the lead on the import side. Bearing in mind the current level of regional integration, which is shown by trade flows, the Balkans virtually does not exist as an economic region. Intra- regional trade flows are insufficient and the bulk of trade accounts for trade with the countries outside the Balkan region, taking an inter- industry character with the EU countries.

Examining the information from the above tables, we can make a number of observations. First, the trade relations among the Balkan economies have declined in significance, with the exception of FYROM and Yugoslavia. Second, the trade relations of the Balkans with the EU significantly increase. Overall, it seems that a radical deterioration in trade volumes have taken place in the geographical composition of trade in the Balkans in the last decade.

Trade integration is an important tool, probably the leading component of the broader, longer- term integration of the Balkans into EU structures. These countries are so small that their development depends critically on international trade and access to the European market, which typically accounts for more than 50% of their exports.[21] Trade integration is also essential to reduce the dependence of these countries on aid from the international community. This vision of regional co-operation and eventual integration with the EU contrasts sharply with present reality. Trade relations in the countries of the region are characterised by a variety of restrictions and impediments to trade with each other and with the rest of the world.[22] Integration in international trade with the rest of the world, including membership in the WTO, should be actively pursued. Naturally, the EU would be the main source of increased external demand as well as foreign investment, as it already is, because of geographical proximity, size and openness.[23] There is also little doubt that intra-

---

[21] Since the Balkan economies are on the whole quite small, they would be expected to rely on and benefit a great deal from international trade. Yet, the existing levels of protection are high resulting in significant distortions and economic costs. The Balkans in their present state is an inefficient market because of the high degree of monopolisation, the lack of development of the financial infrastructure, and a very approximate reaction of market agents to the changing conditions of commercial activity.

[22] It should be stressed that there are many institutional capacity and trade policy constraints, which need to be urgently addressed. For example, reforms, which result in lower and more uniform protection, exclusively through tariffs, or increase their supply capacity to export, would yield very significant benefits to the Balkan countries. Because of their relatively small size and the low level of trade and investment links with the rest of the world, these economies would also greatly benefit from increased external demand for their products, and from higher levels of FDI.

[23] Barriers to intra- regional trade and investment should be lowered to speed- up regional integration and integration of the Balkans with the EU and the WTO. The opening up of the EU markets is essential for economic growth and development, while liberalisation throughout the region is important not only for prosperity, but also for stability.

regional trade can expand and be a stimulus for growth, though the economic structures of some of the countries are quite similar leaving less room for obvious increased trade opportunities based on structural complementarities.

Table 3.8 Openness (exports & imports/GDP) in the Balkans and CEE[24]

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yugoslavia	35.3				36	44.4	40.0	27.1	32.3
Albania	85.7	49.5	53.6	60.4	35.6	23.0	34.0	40.6	38.5
FYROM	80	93	81	71	60	77.3	91.0	81.7	99.8
Romania	53.6	43.3	44.1	50.1	55	56.9	58.0	52.1	71.4
Bulgaria	97.5	78.4	80.9	85.2	103.3	97.0	91.0	70.8	94.4
Slovenia	100.8	96.8	97.2	94.6	93.1	96.7	96.9	92.5	101.0
Slovakia	90.5	99.2	96.4	100.5	105.8	95.9	111.7	109.1	128.3
Poland	32.6	34.3	41.8	41.1	43.0	47.6	47.0	43.2	49.8
Hungary	53.9	50.2	61.0	60.9	65.0	88.3	103.6	108.4	116.9
Czech Republic	62.9	76.7	77.5	92.3	87.8	88.5	100.2	104.7	111.5

Source: EBRD Transition Reports, various volumes, WIIW, various issues and National Bank of Greece- Strategic Planning and Research Division.

As we can see from table 3.8 trade plays a varied role in the Balkan, with trade/GDP ratios ranging from a high of 99.8% in FYROM to a low of 32.3% for Yugoslavia. In terms of aggregate size of the trade sector, there is a big divide between Bulgaria, Romania, and FYROM on one hand, and Albania, Yugoslavia, on the other. As already noted, the countries in the region gravitate towards out-of-the Balkan markets. In addition, more developed countries in the Balkans are either small or not all that open to trade. Conventionally speaking, an economy is open when the given ratios are more than 50%. In this sense, Albania and Yugoslavia would be considered relatively closed economies.[25]

Though the Balkan countries have been able to preserve macroeconomic stability, the high security risk and the small market have been detrimental to growth prospects and therefore for development. The main reason for this negative performance of investments is the overall macroeconomic situation and slow microeconomic restructuring, but an additional factor is to be found in the weak-banking sector. The key issue for both is the increase of the openness of the economy. Though exports

[24] A number of studies have suggested that investment in developing countries is positively associated with indicators of openness (Harrison and Revenga 1995, Haufbauer et al. 1994) suggesting that investors prefer countries with relatively liberal trade regimes and wider free trade agreements.
[25] In Albania, reasons are to be found in the size of the industries and productivity levels. In Yugoslavia the ratio reflects distort impacts of embargoes, sanctions, and military conflicts.

and imports add to more than 50% or so of the GDP, with the exception of Albania and Yugoslavia, this is due significantly more to imports than to exports.

However, both should be increased if the economies are to grow and develop. The greater openness of Bulgaria and FYROM does not necessarily mean immediate trade potential. It is an evidence of getting some fundamentals right. These fundamentals are to establish international trade contracts, with a probability to resist competitive pressures and perhaps cluster internationally. It is likely that a country's greater openness would correlate to sustained greater output and higher income.

Differences in progress toward EU integration among Balkan countries imposed different dynamic effects on their production and economic welfare. Greece is a member of the EU, while Romania and Bulgaria have signed association agreements and are included in the pre- accession strategy of EU, which reflects on product specialisation and foreign trade turnover.[26] There are possibilities for expanding trade between Bulgaria, FYROM, Albania and other Balkan countries.

This could be promoted by signing bilateral free- trade agreements, aimed at abolishing trade restrictions and further opening their markets. The first step for increasing economic links among the Balkan countries is to increase their trade relations. Strengthening regional trade links could increase regional trade flows. This could create exceptionally strong impulses for economic development, with the additional advantage of lower transportation costs.

However, policies towards regional integration are political, as well as economic, decisions. From the economic point of view, regional economic association brings immediate benefits and increases the welfare of participating countries, when they are at more or less comparable economic levels and have similar economic potential. In such a case, eliminating trade restriction between the members of regional

[26] The expected positive effects of the association with the EU depend upon an interrelation between restructuring the economy and trade policy. One of the ways to foster this process is by the creation of a competitive market and widening the export structure. The liberalisation of foreign trade cannot be considered a mean for fostering growth without significant structural changes of the economy.

integration agreements brings benefits to all. In the longer term, it brings the enlargement of markets and the potential to attract investors.

One way to foster trade and FDI in the Balkans in the near future would be to sign preferential trade arrangements among Balkan countries.[27] By developing regional integration, market enlargement could be attained, which would allow Balkan countries to exploit economies of scale and develop a competitive product structure. The EU Association Agreement is a crucial point of reference with regard to current political and economic developments in the Balkans.[28]

3.4.1 Assessing the Characteristics of the Greek- Balkan Business Relations

Greece is a very important business partner in the Balkan region, especially for countries like Albania and FYROM, which have strong dependency of exports and imports from Greece. Since 1990, total investments in the Balkans passed the threshold of 5 billion dollars. This is making Greece the country with a significant share of FDI in the region. Available data show Greek exports to the Balkans in 2000 comprised 11% of Greek exports, the highest share of any member country of the OECD. In terms of sectoral diversification, manufacturing industries have invested more than US 3.4 billion during the past 11 years. Today more than 3% of the Greek GDP has being invested in the Balkans.[29]

---

[27] This would increase their manufactures' production, due to changes of the existing pattern of trade and would lead to gains for production by co-ordinating their trade policies with the other countries.

28 Benefits of signed the EAA are: (i) access to EU markets; (ii) assistance in promoting economic reforms; (iii) regulation of foreign trade corresponding to the requirements of the Balkan countries' acceptance to the EU; (iv) assistance in improving the quality and competitiveness of the Balkan products; (v) fostering of restructuring and economic growth; (vi) increase of exports, based on development of competitive advantages; (vii) creation of bilateral free trade areas for non- agricultural products, abolishment of quantitative restrictions.

29 Greece is Albania's second- largest trading partner, with 14% of all exports to, and 32% of all imports from, Greece. Two hundred Greek companies have invested in Albania's infrastructure, energy, telecommunications, banking, constituting ¼ of all foreign capital. Seven point two percent of FYROM's exports are forwarded in Greece, while 10.1% of FYROM's imports are coming from Greece. Greece is the largest foreign investor, with 70 Greek companies having conducted over a quarter of a billion dollars in trade to date. Greek companies will expand FYROM's electrical grid, modernise its oil refineries and construct a thermoelectric plant and a new oil pipeline connecting Thessaloniki to Skopje. Greek investments that already realised estimated to be around US 350 million, creating 5,000 new jobs. Greece is Romania's 12th largest investor, with 1,700 companies. It is also the 9th investor in terms of size of invested capital, which represents a 7.4% of the total FDI in Romania. A remarkable 35% of the invested capital comes in the form of acquisition of local

Taken all together, over 70% of foreign businesses active in the Balkans today are based in Greece. This direction is based on two very important comparative advantages possessed by Greece. First Greèce's current geo-political, or, more appropriately, its geo-economic position, which has forged well- developed political and economic ties with the broader region of south- east Europe.[30] Second Greece's property as the only EU member- state in this region, something that helps in the assumption of initiatives to strengthen EU relations with the Balkans. Economic development of the Balkan countries will depend to a significant extent on expanding and strengthening ties with the EU.

After some 40 years of separation, a regional market of 70 million people is shaped in the Balkans, including Greece, an EU member country. To the extent that geography plays a role in shaping preferences in economic interaction, a regional market will gradually emerge in the Balkans, driven by distance, size and proximity. With the existing diversity in GDP structures, this trend will favour intra- regional co-operation in investment and trade. Available statistics indicate that the basic characteristic of the Greek- Balkan economic relations is fast expansion of the volume of trade, a relatively high diversification in sectoral specialisation and a high share of intra- industry trade, compared to the Greek trade with the EU (National Statistical Service of Greece, 2000). However, the abandonment of the EU markets in favour of the Balkan markets could jeopardise the competitiveness of the Greek economy. The performance of the Greek economy still depends on its exports to the EU. Therefore, it is questionable whether a high commitment of production factors to

---

companies. In Yugoslavia, 230 Greek companies have invested and are preparing for the country's eventual re- integration into European structures and organisations. In Bulgaria, Greece is the largest foreign investor in terms of the number of companies. Around 500 Greek companies operate employing 45,000 people. By the end of March 2000, the Greek invested capital represents 8% of the total foreign capital injected in Bulgaria. In Bulgaria, Greece is one of the six big investors. Greek banks control approximately 20% of the domestic financial market.

30 Reflecting the earlier discussion in terms of knowledge of the market, the geographical factor emerges as a strong determinant of the Greek entrepreneurial activity. Thus, the majority of companies are developing in Albania and Romania, the two neighbouring countries, with Bulgaria, FYROM and Yugoslavia following. Geographical proximity, therefore, is important as it has been found to be in the Austrian case, where according to Plasonig and Buchleitner (1991) the concentration of about 80% of the Austrian joint ventures in the Hungarian market is due to geographical proximity. A similar picture emerges in the CEE countries, where German companies are the most important investors in Hungary, Slovakia and the Czech Republic and the second most important source of FDI in Poland, with Austria also having a very strong presence, particularly in Slovakia and the Czech Republic (UNCTAD 1998).

the Balkans is desirable at this point due to absence of strong export orientation of the Balkan companies and low penetration of high technology to their production process.

Table 3.9 Balkans- EU Direction of Trade 1995- 1999 (in % of total)

	Albania	Bulgaria	FYROM	Romania	Yugoslavia
Exports to:					
France	0.24	3.35	1.06	5.82	2.93
Italy	16.0	12.33	6.22	19.50	8.60
Germany	57.0	9.88	17.98	18.10	11.4
Greece	1.64	8.20	6.32	7.01	4.53
Austria	1.44	1.40	1.40	2.40	1.75

Source: National Customs Departments and Institutes of Statistics.

Table 3.10 Balkans- EU Direction of Trade 1995- 1999 (in % of total)

	Albania	Bulgaria	FYROM	Romania	Yugoslavia
Imports from:					
France	1.50	3.80	2.20	5.88	3.2
Italy	41.1	7.43	6.68	16.3	10.33
Germany	4.40	13.08	14.18	17.2	12.7
Greece	26.4	4.85	5.62	1.79	4.0
Austria	1.50	2.70	2.50	2.94	3.23

Source: National Customs Departments and Institutes of Statistics.

Greece, as an EU member represents for the Balkans an important partner who can assist them in their transformation process to market based economies. Therefore, economic co-operation and trade integration between Greece and the Balkans can be mutually beneficial. This integration manifests itself in numerous ways, including rising growth rates of exports and imports and rising shares in total Greek trade, as the data in table 3.9, 3.10 and 3.11 demonstrates.

Table 3.11 Growth rates of Greek- Balkan trade

Rates of exports	1991	1992	1993	1994	1995	1996	1997	1998	1999	1991-99
Romania	65%	32%	0%	11%	84%	1%	15%	24%	9%	27%
Bulgaria	91%	99%	118%	44%	3%	-27%	16%	49%	-4%	43%
Albania	-21%	254%	268%	79%	17%	29%	-12%	-17%	18%	68%
FYROM			965%	-89%	190%	463%	33%	6%	63%	233%
Yugoslavia	2%	-56%	-100%							-51%
Serbia						704%	36%	0%	-37%	176%
Rates of imports	1991	1992	1993	1994	1995	1996	1997	1998	1999	1991-99
Romania	47%	-21%	13%	50%	38%	12%	61%	4%	10%	24%
Bulgaria	64%	15%	39%	70%	45%	-20%	28%	2%	-9%	26%
Albania	11%	60%	2%	142%	1%	2%	13%	9%	6%	27%
FYROM			466%	-83%	194%	179%	75%	7%	2%	120%
Yugoslavia	-6%	-70%	-100%							-59%
Serbia						7316%	95%	-22%	-36%	1838%

Source: National Statistical Service of Greece

For comparison, we also present the growth rates of exports and imports of EU to and from the Balkan countries during the period 1992-98, in table 3.12. The information in the tables 3.11 and 3.12 confirms that the Balkans represent an increasingly dynamic export market for Greek products. Its importance is likely to increase, as Greek companies, which find it difficult or unprofitable to place their products in the competitive EU markets, will find an easy outlet in the Balkans. Imports are also accelerating fast, but not to the same degree as exports.

Table 3.12 Growth Rates of EU- Balkan Trade

Rates of exports	1992	1993	1994	1995	1996	1997	1998	1991-98
Romania	49,8%	10,4%	15,4%	44,0%	15,3%	1,0%	20,4%	22,3%
Bulgaria	18,6%	7,0%	22,1%	27,9%	-25,3%	-4,4%	44,3%	12,9%
Albania	80,4%	21,3%	8,6%	31,7%	35,8%	-46,9%	25,5%	22,3%
FYROM			48,9%	36,0%	-22,3%	-18,2%	52,8%	19,5%
Yugoslavia	-10,1%							-10,1%
Serbia			120,9%	70,3%	417,9%	35,5%	5,2%	129,9%
Rates of imports	1992	1993	1994	1995	1996	1997	1998	1991-99
Romania	4,9%	4,5%	59,7%	34,0%	3,4%	10,4%	12,3%	18,5%
Bulgaria	24,5%	-4,5%	43,1%	41,7%	-9,1%	7,9%	13,4%	16,7%
Albania	-14,9%	29,7%	54,2%	37,2%	27,1%	-14,3%	13,1%	18,9%
FYROM			108,7%	19,1%	-24,7%	-11,1%	37,1%	25,8%
Yugoslavia	-10,3%	-100,0%						-55,2%
Serbia			66,7%	720,0%	1102,4%	108,7%	-73,8%	384,8%

Source: National Statistical Service of Greece

The main conclusions of the above analysis can be summarised in four points. First, the relatively strong performance of Greek exports as compared to imports. This is also true for the EU exports, but not to the same degree for the Greek exports. Second, the higher ratio of export to import growth rates characterising Greece's trade with the Balkans compared to EU trade with the Balkans. Third, the larger trade exposure of Greek trade to the Balkans compared to the EU. Fourth, the dichotomy of the geographical distribution in trade between Greece- Balkans and EU- Balkans, that is the stronger preference of the Greek companies to trade with the Balkans compared to the preferences of the other EU countries to trade with the Balkans.

Considering the above and in relation with the characteristics of the Greek and Balkan economies and the change in the export orientation of Greek companies after 1989 we make two observations. First, Greek companies find a new opportunity to be competitive in their export activities, by exporting in the Balkans. Second, the Greek companies having developed their trading activities in the Balkans can take the opportunity to expand their activities, finding comparative advantages in the Balkans that were not available in the EU. Trade with the Balkans offers Greece the missing component in its trade relations that would balance and ameliorate the implications of the existing inter-industry type of specialisation and trade with distant EU markets.

3.5 Investment Developments and the Process of Privatisation in Attracting FDI

Attracting FDI via privatisation was a key objective of the Balkan countries. It has, however, been worsened by repeated failures to implement a coherent policy in the first years of the transition (Stern 1998). The slow advance of privatisation was the result of limited political initiative, poor implementing procedures, and little interest on the behalf of the buyers. The business environment is characterised by an inadequate legal framework and macroeconomic instability, which has affected the extend of economic restructuring, favoured widespread asset stripping and failed to limit the rising need for SOEs subsidisation in favour of domestic buyers.

The four issues raised quite often by all the Greek investors that participated in the research are: (i) the share and role of the state sector in the economy remained profound and that ownership structure has an unfavourable impact on the overall level of economic efficiency; (ii) the rather weak impact on the financial and capital market development; (iii) the insufficient demonopolisation of the market and development of the competition policy; (iv) the low transparency of the continuously changing legal framework for the privatisation process which created a favourable space for many arbitrary decisions which led to different irregularities, expansion of corruption, and widespread perception of privatisation as an irregular activity.

Unfortunately, the privatisation programme did not fully account for its actual effects for microeconomic characteristics due to the desire to make it fast and irreversible. It was assumed that a deterministic approach, where full credit was given to the market as the sole economic regulator, would bring immediate positive changes in the economy. This approach was not successful because the starting point was quite distinguishable from the situation in which a market can regulate the state without any purposive intervention. In addition, the economic reference points were not included in the initial aims and the interests of different economic groups were not defined. Thirty- seven Greek managers explained that the reason behind this unsuccessful deterministic approach was that the governments in the process of formulating the privatisation policy did very little to define the economic interest groups that would attract FDI; the foreign investors. The process therefore, turned into the privatisation of insiders who retain the power over the companies. There was favouritism toward insiders. As a result, the privatisation process has produce state-sanctioned monopolies that continue to prevent the emergence of private sector competitors. To overcome this problem, the above thirty- seven Greek managers suggested that the privatisation programme should proceed along a path that leads to corporate restructuring and modernisation rather than de- capitalisation and asset stripping.

According to the above thirty- seven Greek managers, the implementation of the privatisation programmes has been uneven, and there continues to be a disparity between what is on the books and what happens in practice. Slow and inefficient, indeed corrupt in many cases, were the main characteristics of the privatisation programmes, in particular in sectors such as public utilities and finance. Therefore, the scope of large privatisation that is to attract strategic foreign investors in the Balkans has remained limited in practise.[31]

While the conditions surrounding privatisation are specific to the Balkans, and in fact to each individual country, they illustrate that the efficiency of the markets for companies have a major impact on the Greek companies' ability to acquire local companies. The costs of searching for suitable targets, analysing their economic

[31] The slowness of privatisation has serious drawbacks. One is that the *business life* of much of the property to be privatised tends to decline. The longer it takes for a company to be privatised and the more new assets and investment the foreign company needs to make up for the lost time against other privatised and de novo competitors. The other is that since any type of privatisation is politically controversial, the longer the procedure drags on, the more undermines political support for privatisation, especially when the other major bidder is the existing managers and workers.

viability, negotiating with management and owners and fulfilling side- conditions imposed by governments are examples for transaction costs.

According to twelve Greek managers that have participated in the Albanian privatisation programme the absence of an overall long- term privatisation strategy identifying the legal framework, the policies and the methods of implementation of the programme was the most important shortcoming of the transformation package. The ad- hoc nature of the privatisation programme meant that policy makers did not pay attention to all aspects of privatisation. As ten Greek of the above twelve managers further reported, in the Albanian privatisation programme the question of post-privatisation ownership structure did not receive sufficient attention at the design stage. The rapid transformation of ownership meant that issues relating to corporate governance and company restructuring were not be given sufficient consideration before the implementation of the programme.[32] Therefore, it was not clear from the beginning what are the shareholder rights of the state and how the state will contribute in the restructuring of the companies.

In the case of two large companies, a cement company and a telecommunication company, the privatisation programme has not resulted in the concentration of share ownership in the hands of the owners. The existence of a property rights structure, in which ownership is dispersed among a lot of shareholders and there is not one party that can have enough power to determine the members of the Board of Directors and the strategic development of the company, led in many cases to weak constraints on pursuing managerial objectives, according to the opinion of the managers in the telecommunication and cement companies. The undeveloped nature of the legal and financial systems means that an effective system of corporate governance could only emerge from a gradual concentration of share ownership. That means adding additional transaction costs for the Greek investors. According to the managers of the above two Greek companies they had to purchase additional shares over time to strengthen their position in the privatised company, and secondly they did not have

32 Indeed these inefficiencies of the privatisation programme created a vacuum in which the Balkan managers could acquire increased powers and direction to use in their own, rather than the Greek owners' interest, leading to management conflicts.

the necessary freedom to organise their strategy according to the rules of the market economy. On many occasions, the domestic partner strongly opposed the reduction of the labour force and activated the local authority's bureaucracy as a mean of increasing his power in the decision making of the company.

Another problem was the lengthy procedure and much duplication in completing the application for privatisation. This inevitably resulted in delays. As a Greek manager explained, 'we abandoned any effort to participate in the privatisation process at that stage since we felt that the Albanian authorities were deliberately slowing down the negotiations and the evaluation of our offer. They wanted to increase the price and attract other bidders that would accept more favourably a shared ownership. Although the privatisation authorities meant to act as monitors of the process, they exercised preferences for buyers and influenced the outcome of the process and selected people who were not the highest bidders at the auction'.

In Bulgaria, increasing macroeconomic imbalances had a negative impact on privatisation. Despite this recent progress, finding suitable investors is still considered a weakness in the privatisation process, partly influenced by problems experienced by potential bidders in obtaining information on rules and procedures. With privatisation developing slowly, it was difficult for Greek investors to overcome the resistance of certain groups, such as SOE managers, government officials, and large banks. All parties initially rejected privatisation schemes based on the Czech models.[33] Fifteen Greek investors that have participated in the privatisation process complained about an over- centralisation in decision making in public administration, confusion over criteria used to evaluate bids, and favourable conditions granted to employees. These investors believe that the only attractive option in the privatisation process until the time that they have participated in the privatisation programme was the tax relief and purchase discount schemes that

[33] The Bulgarian programme differs from the Czech programme in some important ways. The creation of privatisation funds was not anticipated when the Czechs designed their original programme. Bulgaria made the privatisation funds as integral part of the programme and created an extensive regulatory structure including a Securities and Stock Exchange Commission, which granted licences and regulated the activity of the funds (Miller and Petranov 2000:229).

provided powerful cost incentives to those choosing to participate through the cash privatisation programme.

Bulgarian legal regulations concerning privatisation outline no strict, clear rules regarding the selection of buyers, making the privatising authorities' selection process fully discretionary. Several reasons for the slow pace of the process can be discerned, the leading one being the institutionally determined obstacles to it. The ambiguity predetermines the slowness of the procedures. Seven Greek managers reported that few public officials seem to perceive privatisation as a political process of property transfer. Since the prevailing philosophy among the privatising state bodies is the search for strategic investors, it is predominantly closed procedures that are being used to sell state- owned companies which are the least regulated and state no clear criteria for buyer selection. Therefore, the process has turned out to be slow, not transparent enough and extremely dependent on the discretion of the privatising officials.

Four Greek managers admitted that despite notable improvements, the privatisation process continues to suffer somewhat from administrative problems. While the multiplicity of approaches to privatisation reflects an understandable goal of maximising flexibility, this has also sometimes contributed to confusion and strained the capacity of public administration in co- ordination and implementation.

Since 1990, Romania's policy has been to encourage FDI. According to nine Greek managers the debate among the Romanian politicians was not whether to promote a market economy that is open to FDI, but over how to achieve this objective. There is still, however, significant resistance to FDI from certain government parties which are lacking the necessary training and enforcement power and from managers of SOE. Fourteen Greek investors claimed that they had to pass through non-transparent procedures. One of the most difficult aspects, according to the above fourteen Greek investors, is represented by the fact that the legal and institutional system is unpredictable. Even issues that have been agreed upon or even included in a law can be changed at discretion.

Seventeen Greek investors believe that the authorities in power do not want foreign investors because these investors could affect the personal Romanian interests involved in privatisation, and they could have too much influence in the economy. The same seventeen investors further explained that the privatisation agencies have professional interests in remaining as members of managerial boards of the companies. Privatising their companies would exclude these executives from decision-making positions. Their political decisions have not been transparent, business-friendly and consistent, and their role is counter- productive. There is still a strong tendency to retain control over the economy by maintaining high level of bureaucracy, rather than letting market forces play out.

Twenty Greek companies that participated in the Romanian privatisation programme strongly believe that the Romanian administrators should do as much as possible within existing legal framework rather than attempting to amend everything, as constant changes to the legal framework contributes to uncertainty and slows down the privatisation process considerably. It is very important for the government to continue to emphasise capital market development, especially so that it can use the stock exchange for public offerings connected with privatisation. According to nine investors that have attempted to participate in the Romanian privatisation programme, the non-existence of efficient capital markets, limited their ability to acquire local companies by acquiring their shares in the stock market.

Nine Greek companies stated the urgent need for clear governance and faster restructuring, suggesting that the high dispersion of ownership in Romania may have serious negative consequences. Not only is restructuring likely to be postponed, but the high dispersion will also impede corporate takeovers, due to both high transaction costs and well- known free- riding problems where small shareholders hold out for a price reflecting the maximum gain from the takeover. Furthermore, five Greek companies were deterred from investing in Romanian companies that were privatised with the MEBO method for the fear that insiders will take advantage of their special knowledge and control over the management at the expense of other investors.

Fifteen Greek managers in Romania reported that the negotiations on the establishment of a joint venture or acquisition of a former SOE have been lengthy and tedious. Problems had been encountered with official obstruction and protracted and complex negotiations with the local authorities, especially as a result of inconsistent in views between decision makers and frequent changes in policy and directions. The policy makers due to their frequent lack of experience in international business and their unclear lines of responsibility inhibited them. The above fifteen managers further reported that they received conflicting information from different ministries and government agencies involved in the privatisation process, since every now and then a new privatisation committee was appointed.

Romania's current institutional structure for privatisation is too complicated. There is a need to streamline decision- making and make one institution responsible for privatisation. That institution should have sufficient authority and independence to carry out its mandate. Standardising the privatisation process so that it is clear how each transaction is being handled and therefore attract more foreign investors will facilitate this.

In FYROM after a successful launch in 1991, privatisation stalled and only resumed in 1994 with the enactment of the current legal framework. Under this law, the managers of SOEs were allowed to propose the privatisation method and were given preferential treatment if they were interested in acquiring shares.[34] The privatisation methods used, coupled with regional instability, acted as a major deterrent to foreign participation in privatisation. Recognising the limitations of MEBO, the government took steps to reorient the process towards outsiders in 1998-99.[35] A major step towards greater transparency in the privatisation process is being taken with revision of the original privatisation law. The expected gains from privatisation however, have been limited by continuing institutional weaknesses such as an inefficient and underdeveloped financial sector and lack of transparency.

---

[34] Therefore the managers were proposing a business plan to suit their ambitions rather than a plan that will attract strategic foreign investors. This resulted in a wide participation of insiders in privatisation.

According to six Greek managers, until 1996- 1997 the lack of publicly available information of companies' financial status, like in the case of Bulgaria, in addition to unstable political climate and a small domestic market, has initially deterred them from investing. Inefficient legal framework concerning property rights and cumbersome tax and customs procedures were also major deterrents. Last but not least another significant negative aspect of the privatisation process was mentioned by the above six managers; the overvaluation of the SOE in association with the investment risk in the country deterred us to participate in the privatisation process. However, after 1997-98, according to the above six managers, the government has changed its perception and policies of the privatisation programme and it perceived it as a vehicle for increasing the efficiency of the economy. That is because the government started to believe that higher efficiency in an company can be achieved with dominant foreign owners, who care and who are committed to preserve and increase the value of their shares in the company. The common understanding is that commitment comes when somebody pays for the share he receives. That is why the main method for privatisation is the sale, or case-by-case method, rather than vouchers or some other non-cash system. The primary objective of the process, therefore, is to increase the efficiency of the economy through the conversion of companies with *social capital* into companies with defined ownership.

Most people in Yugoslavia believe that the companies they work in belong to them and not to anybody else. Therefore, insider privatisation was preferable to any other.[36] In fact, most of the employees see no reason to privatise the company in which they already have all the rights of the actual owners. However, even in that case, no obligation was legislated and no dates were set. Starting in mid-1995, privatisation has become one of the most discussed issues.[37] However, the high level of political risk impeded larger inflows of foreign capital.

---

[35] Even when shares were made available to outsiders as well, insiders tended to purchase the majority of the shares, as they had privileged access to company information and could benefit from discounts and the opportunity to pay in instalments.

[36] In a number of laws that were passed in the parliament this sense of justice has been recognized and insiders were given preferential treatment to all the other potential foreign investors.

[37] However, the process itself has not progressed all that much. This is not altogether related to the foreign investment legislation because the law on foreign investment that was adopted in the spring of 1996 gives some significant possibilities for foreign investment.

Yugoslavia lacks the necessary legal and institutional mechanisms to guarantee the security of investments and ensure that markets function effectively.[38] Both public and private sectors are characterised by a lack of regulative structures, resulting in monopolies, price- fixing, tax evasion and corruption. A potential Greek investor reported that 'I was deterred by the absence of adequate legal provisions on contracts and property rights. Even under the right macroeconomic conditions, many Yugoslav companies would presently not be attractive to my company, therefore reducing our ability to synergistically develop resources, and securing that the ex ante defined goals will be met ex post'.

The absence of competition and adequate regulation has led to inefficiency, mismanagement and a decline in the value of the SOE. The introduction of new regulatory mechanisms and market conditions will hopefully end preferential conditions for many companies and those dependent on existing state structures for profits. Anti- reformist groups are likely to mobilise popular resistance by exploiting these problems. This form of political opposition would limit the scope for introducing effective economic reform and privatisation.[39]

Since the necessary legal conditions for the process of privatisation have not been created, attempts to enter the process of privatisation from the best possible starting positions are becoming evident. Five Greek investors in Yugoslavia believe that the government by avoiding launching a process of wide and rapid institutional privatisation of the state sector, has indirectly allowed non- institutional privatisation, which has speeded development of the private sector.

---

[38] The reluctance to abandon the old concept of *social property* has led to solutions that do not ensure the implementation of quick, comprehensive and compulsory privatisation. Some of the most profitable and competitive companies have been excluded from privatisation, or were privatised using non- transparent methods that enabled asset stripping (Uvalic 2001).

[39] The new government will face difficult challenges in the areas of enterprise and bank privatisation. Both sectors continue to be affected by former heritage of *social ownership,* under which, companies were owned collectively by their workers and governance was weak and highly politicised. Several privatisation initiatives since 1992 have accomplished very little as they have failed to challenge the authority of managements and employees in social enterprises. The new government must amend the existing privatisation law with a view to addressing weaknesses in the present legislation.

The cases of spontaneous and *nomenclature* privatisation have been reported. The experience of five Greek investors in Yugoslavia is that only those who were close to the members of the state establishment could use their position in the shape of strategic capital, omissions in legal regulations and avoidance of legal sanctions, in order to build what are now, financially, the most powerful private companies. The above five Greek managers explained that the privatisation law was made so as to be convenient for those who are close to the fire, which means that the best opportunity would be given to those who are either in it or at least have good connections with the government.[40] The above five Greek managers further reported that the local authorities often regulate and control the entry market requirements based not on market standards but rather on personal preferences and influences.

All the ten Greek companies from our sample that have invested in Yugoslavia, believe that the Yugoslav government must make a clear distinction between deficiencies in the laws themselves, obstacles, and limitations concerning these models, which derived from the environment. Strategies to attract FDI should not be carried out in a closed system. In such circumstances, according to the opinion of six Greek managers privatisation becomes an aim in itself or, in other worlds a means for keeping the existing configuration of political interests.

Successful privatisation will require credible legal structures and effective regulatory financial institutions. The new government in Yugoslavia agrees that one of the most urgent tasks in this respect is the radical reform of the banking system. Such reform will be vital if foreign investors are to have adequate access to capital. Reform will also be important for securing support from international financial institutions and creditors. It was observed earlier that the absence of effective regulations and laws serves as a disincentive to investment. A new administration must therefore introduce provisions on competition, contract and property law to create a stable environment for investment and business transactions. Transparency in the

[40] This refer to the fact that privatisation is not obligatory and that it authorises the government to arbitrarily exclude any company from this process and to carry out privatisation far from public scrutiny, by selling a SOE directly without public bidding. The intention of the lawmakers was that the privatisation will be carried out under strict control of the executive authorities and that the government will choose which SOE to privatise, when, and at which price.

application of these rules, are vital for ensuring the legitimacy of new institutions and for avoiding public perceptions of corruption and discrimination.

The Balkans have adopted a positive attitude towards privatisation, yet eighteen potential Greek investors hesitated, owing to insufficient knowledge of the legislation and the lack of experience in the implementation of particular privatisation methods. Concerning the characteristics of the privatisation transactions concluded up to now, we can make the following conclusion. The reasons for the delay in privatisation are not economic, as they are an outcome of the conflict interests of different political and financial groups and the lack of a will among the main forces to speed up the process. The main conclusion is that the existing problems in the privatisation procedures have appeared because the process involved institutions, which are interested in delaying rather than accelerating privatisation as in the case of the Romanian privatisation programme.[41]

All ten Greek investors in Yugoslavia proposed that quick and transparent privatisation is the best tool for combating instability, which is a characteristic feature of any economy during transition[42]. Accelerating the privatisation process requires major amendments in the legislative framework, accompanied by a change in the approach of all government authorities toward privatisation. The governments should have a more reliable and consistent policy regarding FDI therefore minimising the risks and the uncertainty of foreign investors. The introduction of competition law is very important. The completion of the restructuring of large

[41] Considering the procedures, the Greek investors agreed that the privatisation authorities should reduce the duration of the privatisation. They suggested that it would be most appropriate to bring the privatisation process within a reasonable frame of time, thus the decision making process needs to be kept as simple as possible, with simple lines of communication between the responsible parties.

[42] In certain cases the urge of the governments to speed up the privatisation process, resulted in observed cases of competition restrictions and preferential treatment of certain clients, lack of openness and manipulated privatisation transactions as in the case of Yugoslavia. Transparency is important in order to prevent the institutions from becoming captive to political interference and pressure of powerful industrial groups, as Greek investors in Romania and Yugoslavia have reported. Thus, it is necessary to limit the conditions of the transactions. This would facilitate new potential buyers. Reducing the conditions of the transactions will provide better opportunities for post-privatisation control over the agreed commitments, as well as legal stability of the transaction. There is a need for a concerted privatisation strategy. It is necessary to remove any discrimination between the domestic and foreign investors. Competitions and auctions are the procedures that are shortest and the most clearly legally regulated ones.

monopolies is a prerequisite for successful privatisation. The privatisation will restrict or eliminate the state monopoly and will facilitate the inflow of investments.

3.6 Conclusions

A significant part of the region still faces significant delays in implementing successful reforms, which make the recovery prospects of the region look unstable. Being the most fragmented region of Europe with so many problems, unavoidably has affected the economic structures and therefore made the transition a rather painful process. The peripheral position of the Balkans with respect to the major European markets has exacerbated the disadvantages of fragmentation and isolation, which make economic interaction even more difficult. Developmental strategies depend not only on what is going on inside these countries; i.e. the structural reforms,[43] but also from foreign investors, i.e. the external driven growth.[44]

Albania's economy presents a very controversial picture. Distorted initial economic conditions influenced the speed and characteristics of the transition process. Macroeconomic indicators performed well, but microeconomic development, structural and institutional reforms did not progress in the same pace. Bulgaria's economy was characterised by a long- lasting underperformance. The transition

---

[43] When economic policy reforms were inconsistent, privatisation was slow, FDI was insignificant; thus macroeconomic stabilisation and growth were undermined. FDI can play a crucial role in the regional economies' recovery and restructuring for sustainable growth. A commitment by the Balkan countries is to implement more forcefully macroeconomic stabilisation and structural reform programmes designed to place the economies on sustained growth paths. Sustaining macroeconomic stability is crucial in the development of functioning economies and in the creation of an environment conducive to private sector development and investment. By stabilising the economic and legal environment an increase of market seeking investment will be achieved. The latter is involving imprecise property rights, underdeveloped institutions of market economy, unstable and unpredictable monetary and fiscal policy. Improvements in these areas will affect market- seeking investment, via the influence on the choice of companies between export and FDI. The Balkan countries were slow to pursue structural reform on many levels, including the implementation of the necessary legislation for attracting FDI. This was undoubtedly one of the key reasons for the slow inflow of FDI.

[44] The only way to attract FDI is to bring business legislation and practices into line with European and international norms. In varying degrees, all of the economies have made significant progress in the creation of the necessary legislation, which enhance the environment for FDI. However, there are significant inconsistencies in the implementation of the legislation. The business environment will improve by making the legal framework for foreign investors transparent and efficient, and by trying to reduce the vast bureaucracy. At the same time the governments must proceed with new administrative practises, which minimises the scope of corruption and ensuring the stability of the

period quickly removed the institutional framework of the centrally planned economy, while the establishment of the free market mechanisms turned out to be a long stop and go process. Unclear property rights and the weak financial system may be viewed as major characteristics of economic underdevelopment. In contrast to other transition countries like Poland, Bulgaria could not combine the economic decline with real positive structural changes.

Although in Yugoslavia radical economic reforms are likely to be costly in the short term, they are nonetheless unavoidable and must be seen in the light of substantial benefits expected in the long term. Undoubtedly, the main problem in the economy is the lack of fundamental systemic change. It is not an exaggeration to claim that Yugoslavia is still at the process of the first transition period. FYROM's economic performance has demonstrated considerable adaptability and resilience. On the other hand, because of regional instability, loss of savings and economic scandals, the authorities have to aim for a higher degree of stability to rebuild confidence both for domestic as well foreign strategic investors. Romania's transition experience is an example of the importance of structural reforms for durable macroeconomic stabilisation. At the same time, it is an evidence of the pains of such reforms.

The existing evidence suggests that the Balkans have large potential to attract FDI. Trade liberalisation is likely to facilitate export and efficiency seeking investments. Regarding liberalisation, we can argue that even in the cases in which countries were ready to liberalise internally, the overall liberalisation was constrained by the fact that they had found themselves in a region that is full of trade and investment barriers. Therefore, the extent and effectiveness of liberalisation have been constrained by the illiberal environment that the region as a whole presents.[45]

---

business environment. Last but not least, the Balkan countries should strengthen the institutional framework, improve financial intermediaries and markets and enhance information transparency.

[45] For that purpose the Balkan countries must reduce protection through lower tariffs. Exporters cannot compete effectively, if they must pay high tariffs and duties. They must eliminate non- tariff trade barriers, through the removal of licences and quotas, and they must also remove the barriers to entry so the market will act in a more effective regulatory environment than the state ever could.

Clearly, there is a need to set up credit lines and facilities for the SME sector. In the light of credit provision, corruption and bribery in corporate lending should be dealt as soon as possible otherwise the *informal* sector will continue to be the main source of credit to the private sector. Opening up the domestic market to foreign financial institutions with superior lending policies and risk management policies banks that will create the conditions for increased lending to the private sector, is the first step towards the development of the banking sector. The governments should introduce non- discriminatory tax system, which is a crucial issue for economic development and promoting new investment. Last but not least, the governments must accelerate privatisation and structural reform in the financial and enterprise sector. This can be achieved by acknowledging that their value is what the market will pay rather than what the governments are expecting to achieve.

The structural reforms described above can together make an enormous contribution to creating a favourable investment climate for long-term growth. While attempting to forecast long-term growth rates, it is possible to identify two reasons for optimism and one for pessimism. The two reasons for optimism are the scope for large productivity gains from structural change and enterprise restructuring and the productivity potential of the skilled workforces. This combination creates a strong potential for growth. Well-functioning markets will drive the actions and investments that can realise this potential. The main reason for pessimism is the weaknesses of the institutions, policies and practices that are needed to underpin a market economy. As highlighted above, there are a number of important steps which governments should take to improve the business climate and, in particular, to strengthen the institutions that support FDI. Important progress has been made in the creation of the legislation necessary in order to attract FDI, although as discussed above, some problems such as inconsistent implementation and frequent changes in the legislative framework persist. The need to develop the institutions of private governance is obvious, although not receiving the necessary systematic attention.

Taking into consideration the evidence in this chapter about the economic development and privatisation process in the Balkans, a non- exclusive list of the investment environment would include first of all the *policy failure* explanations that attribute poor transition performance to delayed reforms and non- persistent policies of privatisation and market liberalisation. Second, the *market failure* explanations that consider the *shock therapy* of massive privatisation, liberalisation and deregulation in the absence of appropriate institutional arrangements as the primary factor explaining the repeated crises in the Balkans.

CHAPTER FOUR

The Research Methodology

4.1 Introduction

This chapter will ascertain the difficulties and problematic issues that arise by conducting empirical organisation and management research in transition economies. It questions the notion of universality of the way various methods and techniques are applied in the field. The chapter describes and reflects on methodological difficulties that we have encountered in conducting organisation and management research of Greek companies in the Balkans since the change processes started in the socialist bloc in the late 1980s.

This chapter contains examples that illustrate some of the problematic issues that we have faced in our empirical work. They provide evidence of the specificity of the Greek corporate context seen as a field for conducting field studies and point out the need to conceptualise different methodological issues in order to successfully administrate the different stages through the fieldwork. Besides addressing and reflecting upon problems and obstacles, we suggest measures as to how we overcame these methodological difficulties. They are many possible practical ways to solve methodological obstacles, although researchers should be aware that adjustment and contextualisation of these measures into various conditions might be necessary.

4.2 Methodological Approach

One of the fundamental problems concerning studies on transitional economies is the absence of a grand theory, which would model the impact of these economies to the decision making of Western companies prior to their investment and their operations in these countries. Another main problem is caused by the fact that the majority of the existing empirical studies in transitional economies have not integrating theories designed in the West with empirical data collected in the East. A lack of interaction between theories and field data is one reason that some scholars continuously stress the uniqueness and importance of triangulating theories developed in the West and integrate them in a post-socialist context.

Recognising the limitations inherent in these research methods, this study uses methodological triangulation by combining qualitative and quantitative methods. Since the strength of each method is closely linked to its weaknesses, we can improve the accuracy of our judgement by triangulating theories.[1]

As studies on FDI activity in the Balkans present a relatively new field of research in transitional economies, there are numerous themes waiting to be explored. However, in order to deepen the understanding of the modus operandi of Greek FDI in the Balkans, we have consider besides placing emphasis on the collection of earlier studies and findings of Greek companies in the Balkans, also to attempt to solve a variety of transformation problems within the framework of our exploratory study. Thus, the tools for data collection that this study makes use of are[2] besides (i) examination of official documents, archival materials, internal company reports, that is use of earlier studies and findings, we also used (ii) in- depth face to face interviews and (iii) mail questionnaires. Although the mail questionnaires collected the basic *hard* data, emphasis was placed on the *soft* data, i.e. the ideas and judgements of the managers.[3]

A pilot study was initially made in April 1998. Due to time and attention requirements of an extensive list of categories, participants in the pre test questionnaire stressed the need for using a *short* questionnaire in order to maximise both data accuracy and response rate. On the basis of pre test respondents' comments regarding the most

[1] For more details on the issue see the studies of Webb and Dawson (1991), Eisenhardt (1989), Brown and Starkey (1994), and Yin (1994)

[2] The data collection covered the history of the companies, organisational and technological changes since the initial investment in the Balkans, the relationship between the Greek and the local company, labour issues, product development, export activity, investments in technology and performance issues.

[3] Perceptual measures are particularly useful in the measurement of internalisation advantages since past experience has shown that it is a difficult construct to quantify (Agarwal and Ramaswami 1992).

important variables and the maximum feasible length of the questionnaire, the original list was reduced accordingly. The questionnaire has been designed according to the following objectives: (i) to collect information on the dependent variables. That is the business activities of the sample companies in the Balkans and to collect exploratory information on attractions and obstacles to investment, separating market from factor cost FDI; (ii) to collect information on the business characteristics that according to theory would be relevant for the choice of organisational form; (iii) to collect company specific data relevant for the decisions concerning investment activity based on the organisational form; (iv) to collect exploratory information on the operational performance of the Greek FDI in the Balkans.

When possible problems of the data collection are evaluated, 'non-personal' mail surveys pose a considerable risk of high non-response. The possibility of high non-response is not only caused by insufficient enterprise information but also by decreasing enthusiasm on the managers' part to participate in surveys of which there have been more and more during the last few years. We overcame this 'survey exhaustion' by informing managers prior to distributing the questionnaires.[4] This method has proved to be a more effective way of receiving complete questionnaires than simply sending reminders to the managers.

The access to the companies was negotiated with the managers through several telephone conversations and it was confirmed in written form prior to the first visit there. The interview process started by making telephone calls to the companies. The aim was to find the most appropriate officials in the companies agreeing to participate in the survey with enough knowledge of the company's overall activities.[5] Appointments for

---

[4] If they agreed to participate, the author visited the companies personally to meet the respondents. We felt that personally meeting the respondents strengthened our credibility and motivated companies to take part in the research. We presented and explained the research also in written form, through a covering letter that we attached to the questionnaire. In this short presentation of the research, we stressed the confidentiality of the data and the name of the company that they represent.

[5] As a rule, we had more than one respondent in a company, depending on the size and the importance of the company. In this way, we obtained a more realistic image of the company, rather than of the personal opinion of a single respondent (Venkatraman and Grant 1986). Further, the respondents were part of the

interviews were made by telephone in accordance with the wishes of the executive interviewee before the interview date. This gave the interviewee the opportunity to prepare the necessary information concerning the interview.

4.2.1 Conducting Organisational Research with Greek Companies

Universal issues concerning organisational research are not dealt with here, instead emphasis is put on those areas, which we have encountered when conducting organisational research of Greek companies in the transition economies. The main focus of this section is placed on problems linked with sampling, questionnaire design, and data collection. Research problems and solutions are approached in light of the author's own experience of these problems.

There are specific issues that must be addressed when conducting organisational studies of Greek companies, and we have found them problematic in our own fieldwork. Identifying the field, getting the access to it, dealing with the secrecy and mistrust while being in the field, are methodological issues not to be ignored. At the same time these particular features, form and define both the context and the content of the research process. Therefore, they need to be given voice and to be made explicit.

In the Greek- Balkan context there is a lack of systematic information at different levels. There are no reliable databases, files, registers or archives that may provide the preliminary information (information about the Greek companies in the Balkans) that we needed at the pre-access stage. This is the stage at which the organisations that may constitute the field for studying the issues under investigation must be identified. Under such circumstances, we have conducted the Greek companies as to identify whether they are exporting, investing or are indifferent to the Balkan markets. Once the pre-access phase, that is the companies willing to participate in the research have been identified, is

---

management team of their company thus ensuring that the questionnaires have been completed by organisational members involved in the strategic decision making process (Huber and Power 1985).

complete and the field has been identified, we were faced with the challenge of achieving access to the field in question.

Meeting all the perfectionist requirements of sampling is a very challenging task in Greece, as national company registers for companies active in Greek- Balkan trade relations are deficient. For example, company registers do not always contain information even about owner or address of a company, which makes it impossible to detect these 'phantom' companies. Furthermore, there is no official list of companies, which have made direct investments or export in the Balkans. Secondly, the company registers include a great number of non-active companies. Many of these 'idle' companies have been registered with a speculative intention to start operations, only if the opportunity arises in the Balkans. To make the sampling even more complicated, it has been estimated that there are thousands of 'shadow' companies, which are very active but have not been registered in Greece, as they have registered in off- shore locations, such as Cyprus and Luxemburg. The large number of these 'phantom', 'idle', 'shadow', and 'unofficial' companies made it very impossible to precisely define the company population of Greek companies in the transition economies.

One way to tackle difficulties concerning the population definition was to concentrate on officially registered companies, and to consciously exclude 'shadow' and 'unofficial' companies. Despite the extensive parallel economy, it was appropriate to exclude the hidden company activities, since it was impossible, to carry out research on the 'shadow' or 'unofficial' companies. The exclusion of the unofficial entrepreneurship allowed us to focus on easier though not on easy task i.e. the separation active registered companies from the 'unofficial' ones. We exclude passive companies by searching the registers for companies' turnover, sales, profits or employment, thereby enabling a division of the companies into active versus passive categories. For example, data basis of various industrial confederations and business associations were combined. The base population was retrieved from the database of the Ministry of National Economy, the Greek consulting firm ICAP, and the Hellenic Bank of Industrial Development.

The base population has been selected in view of the two research objectives. The first is to understand FDI activity to the Balkans and the second is to test theory of international business. These two objectives are to some extent conflicting. Transition economists, and policy advisors, would prefer to use a very broad sample to get as close as feasible to explaining the activity of FDI. To be relevant for economic policy, the selected industries should be relevant for the host countries, and typical or representative for investment at large. Thus, sample companies should be active in the Balkans with a variety of organisational forms and they should be representative of selected industries

The analysis of theoretical propositions on the other hand requires focus on some selected industries only to reduce variations from influences other than those analysed in the theory. The analysis arising for transaction cost economics further require for the sample that it should include industries facing major trade barriers, such as dairy products, and it should include technology intensive industries, as variation of these characteristics is important to analyse transaction costs propositions. Finally, it should include labour intensive industries such as textiles to be able to test propositions derived from the literature review.

A compromise was made to focus on sectors of interest from both the theoretical and policy analysis perspective. The base population for the survey covers manufacturing as well as service companies.[6] This choice is based on the comparatively important role of both sectors investment in the region. In addition, the theoretical frameworks have been developed for both sectors. Though we have considered the idiosyncrasy of the service companies as discussed by Buckley et al. 1992, we have decided to include them in our

[6] The principal motive to include service sector companies is according to the theory of FDI, where service companies are under pressure to follow abroad their important customers, for fear that they lose out to competitors. While this emphasises the defensive nature of FDI in services by treating it as a derivative of foreign investment in other industries, nothing prevents service industries from behaving aggressively. Thus service companies establish themselves in foreign markets, expecting to exploit any company specific advantages they may possess, in the same way as any other company. This reflects the desire of the service companies to internalise company specific comparative, as well competitive advantages, in terms of know- how and strong financial position. The strategic intent, that is to serve their

research, since they represent a very vivid category of Greek companies investing in the Balkans.[7] Although the FDI theory was originally developed to explain foreign production, its application to service industries is considered equally appropriate. FDI theory has been applied in the past to explain the internationalisation of the service industries (Agarwal and Ramaswami 1992).

The theoretical requirements of variation in technology and marketing intensity apply to all industries. Labour intensive production is important, except the service sector. The companies that cover the base population have been selected so as to reduce variation but retain policy relevance. These companies are, the tobacco companies, the food and beverages companies, the telecommunication companies, the electronic components manufacturers, the building materials companies, the financial services companies, the mining companies, the textile companies, the petroleum companies, the plastic products companies, the pharmaceutical companies and the furniture manufacturers.

Considering our research theme, it is our intention to select different sized companies, with diverse activities in different industries. In this way, emerging theory may be tested in different settings, extending it and improving its external validity. The presence of the companies has been taken to include both the running of installations there and trading therein. The sample came not from a single industry and hence the generalisability of the results is not limited. Caution must be also be exercised in drawing cause- effect inferences from the study because of the use of cross- sectional data.

Getting access to particular companies (mostly SMEs) turned out to be extremely difficult and time consuming process. The secretaries of the managers were 'unwilling', in many cases, to connect us with the managers over the telephone and continuously refused to arrange an appointment with them as soon as possible. Thus we started

---

Greek corporate clients in the region, is transformed into an enabling factor for the execution of a wider strategic intent, namely the acquisition of extensive, region-wide banking networks.

[7] Pye (1998), Lyles et al. (1996), Shaukat (1997), Uhlenbruck and DeCastro (2000), Pitelis and Iammarino (1999) also included service companies in his research on western FDI in Central Europe.

collecting the data by studying archival materials provided by the secretaries. Knowing that the researcher is a Greek student studying at the Edinburgh School of Management, the secretaries behaved in an unfriendly and even freezing manner. This was a key point, which could determine whether the fieldwork was going to be facilitated or blocked. Much more importantly, they were the ones to arrange all the appointments with the other managers for our next interviews over the following days. The secretaries were also responsible for introducing us to many of the managers and employees and for taking care of various practical issues. This example illustrate that the general managers' secretaries play a key role when it comes to getting access to the general manager and, more importantly, to the company. Whereas the general manager can usually only find time for a single interview, the secretary was often the person to connect us to the other respondents and to facilitate (or obstruct) the process of collecting field data.

The lack of interest in helping young researchers could be interpreted in various ways. First, there is a general lack of experience with researchers in Greek companies.[8] Managers usually perceive it as a personal favour to the researcher that they accept the latter's fieldwork. In general, managers did not initially approach our study as a mutual process from which they too might learn and benefit. They approach the interview approach as a one-way communication (that we learn something from them) and not a two-way communication (that they can learn something from our analytical work and experience in the field). This leads to the second explanation, which could be formulated as a question. Do managers (especially those belonging to the upper management levels) really not reflect upon the possibility of getting feedback from us, or they do not intentionally want to know how an outsider understands and interprets their organisational reality? Having had the possibility of asking insiders about this particular issue, we tend to say that the reason for this behaviour is rather lack of experience than deliberate resistance to receiving feedback.

[8] Before the start of the transformation of the Greek economy in 1980s, the research on private and public companies and their management was considerably different from today, since it focused more on pure system descriptions rather than in-depth analysis of organizational behaviour.

Fieldwork in Greek companies is not the art of the possible, it is rather the art to try making it possible. To offer feedback is not an efficient tactic for acquiring entry to companies in the corporate context. Knowing the cultural context of the country where the investigated settings are situated (Greece), being competent regarding the norms and basic attitudes of the people whom we encountered as carriers of the particular national cultural heritage, and being sensitive towards the concrete situation, are necessary conditions for negotiating and getting access to the field. That is also one of the key reasons that motivated to us to study the Greek FDI activity in the Balkans, and not the experience of other foreign investors such as the Italians.[9]

In Greece, the very appearance of researchers on the company's stage is still perceived, by the majority of the managers, as new and 'very strange'. Managers and employees in Greek organisations are not at all used to encountering, and much less working with, people from academia. The vast majority is highly suspicious and resistant. It requires a great deal of sensitivity and effort to make them providers of information. Thus all the participants were given a personal written guarantee of complete confidentiality in their responses.[10]

When we asked people from the companies in which we gathered data to act as respondents, we always made it clear that the particular study was either purely theoretical or developed for teaching and training purposes. This is absolutely necessary bearing in mind the typical mistrust in Greek organisations together with their lack of experience with having researchers from the academia conducting empirical investigations. When detecting doubt amongst managers who have been asked to act as informants, we always showed them the interview-guide. Respondents were assured

[9] By studying parent companies based in a single country (i.e. Greece) controls for the impact of national cultural differences in the mode of entry, differences which are very difficult to model (Kogut and Singh 1988). The choice of Greece was based on the fact that it plays an important role acting as a gateway for the flow of foreign investment to the region, as well as being a major investor in the region, given its geographical position and political links.

[10] Hence, in keeping with this confidentiality clause the data presented in this paper are based upon the summary statistics and analysis drawn from the database of survey respondents. The author's strict adherence to disclosure ethics do not allow for the data and names of the companies to be made public.

confidentiality and anonymity. They all started or finished with almost the same phrase: I am not sure whether what I can tell you will help you.

Data collection procedures in the interview stage were influenced by the need to collect as much information as possible to capture contextual nuances. From the study of the literature and information from the first pilot studies, a detailed list of issues to be probed and investigated during visits to the companies' headquarters was developed. During the interview process, an interview guide was made to ensure that the key topics were discussed. It was through the responses obtained from key issues that more specific questions were formulated.

The interviews were structured and the author carried them all out face to face with the company executives and over the telephone for additional input. The *semi- structured character* of the interview offered the opportunity to have a more relaxed discussion, giving the interviewees the opportunity to offer his/ her input (Brown and Starkey 1994, Eisenhardt and Bourgeois 1988). To our surprise, the interviewees were very open even to questions that we had previously considered being *sensitive*.

In all of our studies, the manager(s) who is (are) responsible for the Balkan/ international markets was (were) the first to be interviewed. This approach helps in several ways. Having conducted the interview with the particular manager(s), our introduction to the following interviewees was: 'We are conducting a study on ... (the concrete subject was mentioned). We have the Balkan/ international markets manager permission to do it in your company. He (she) has already acted as our respondent and has given us a long interview'. We knew that this detail would carry weight. And in all cases it did. Informants felt more secure. 'If the managers have agreed to give him an interview, it can't be wrong if we agree, too'. The danger of acting as a respondent was thus, eliminated for most organisational participants.

Since the data collection was taking place in Greek organisations but the data were analysed and presented in a non- Greek context (i.e. in the University of Edinburgh), it was helpful for us to clearly communicate this fact to the respondents. This eliminated much of their anxieties. In many of the managers that we have interviewed and they were willing to discuss issues further but they were reluctant due to their corporate guidelines, we made this point explicit: 'Edinburgh is far away and the analysis will not be written in Greek language. Even if you (the manager) make mistakes and tell me something 'wrong' (in the sense that it is not approved in the company), nobody in Edinburgh or in Greece will know about it'.

An issue that deserves attention is the use of a tape recorder. Whereas this is defined as 'accepted methodology' for collecting data in the western context, it is not always an 'accepted' in the Greek environment. In some of the company visits we only took notes during the interviews and did not even ask whether we could tape them. In bigger and more ambitious companies that we believed that the managers have many information and experience to share with us, we have taped all conducted interviews. In the latter case, some respondents became very nervous while others were extremely serious simply because of the tape-recorder. It was intentional that we did not tell anybody in advance that we intended to tape the interview. We did not ask for permission to use it, because we were confident that the respondents would prefer not having their answers taped, thus being directly 'connected' with anything that they reveal to us (this has been always the case in our previous attempts). We simply took out the tape-recorder at the last moment and started with the first question. At that point, our dilemma was whether to adopt an ethical attitude and get less rich data or merely start the tape-recorder and get as much as possible. We often opted for the latter solution. However, ethical issues were stressed to an even greater degree when respondents asked us to switch off the tape recorder. This often occurred at times when the respondent volunteered the most significant information, and he did not want his name to be associated with the information that he have passed on to us. However, we respected their wish, trying instead to memorise the information and integrate it in our data interpretation.

We applied different tactics with respondents that were young graduates and they have graduated from a British university. We began the session with informal chatting on themes of mutual interest, such as their experiences from studying in the UK, which had nothing to do with the interview itself. Since we confronted the respondents by simply taking out the tape recorder and putting it on the table, to be switched on at the start of the interview, it was worth investing time in relaxing the atmosphere and reducing the sense of invasion of their emotional territory. We took that time because we wanted to make sure that the respondents were relaxed and felt comfortable before starting the actual interview. Afterwards, we could conduct and tape the interviews.

The difficulties with using a tape recorder make the process of taking field notes even more important, because field notes are an ongoing stream-of-consciousness commentary about what is happening in our research. We were tape- recording the interviews because whatever statements the managers made it was often difficult to know what will and will not be useful in the future.

Another specificity in conducting field research in Greek organisations is the fact that insiders are not using the business language that can be used in a proper, meaningful academic research. Therefore, it is of the utmost importance to simplify the terms and explain the terms, which create possible misunderstandings. Even more important than elsewhere, it was essential to check the understanding of the terminology through a pilot study and discuss with the respondents how they understood the questions.

Although in many cases the managers provide a 100% of what we requested, yet sometimes the language, and the quotations of the managers could not be easily translated to English, and when they did, they lost some their meaning or accuracy. Lack of comprehensive terminological knowledge can create situations where questions are not completely understood or where questions are completely misunderstood and falsely interpreted. As the translation jeopardises the vocabulary equivalence, a translation back into the original language was always necessary to pinpoint possible differences between the original questionnaire and the translated one.

Table 4.1 Problems and research approaches in management research in the Greek companies

Research Problems	Research Approach
Identification of the field, getting access to it, and entering it.	Do not expect to be able to identify the field on the basis of databases, registers, archives, etc. – there is a lack of reliable, systematised information. Make intensive use of many sources of information, and as many as possible registries.
	Act according to the social and behavioural norms of the country and the particular organisation.
	Accept and respect the fact that access often depends upon insiders placed on lower levels of the organisational hierarchy.
Secrecy and mistrust in the investigated organisation	Be very sensitive especially at the beginning of the field study. Find out what norms are valid in the investigated setting. Try to identify the 'chemistry' of the interactive situations and influence it carefully.
	Try to interview representatives of the upper levels at the beginning of the study and let the lower levels know about these interviews when you ask them to act as respondents.
	In case you collect the data in Greece and conduct the analysis and publish it in a non- Greek context, tell the respondents. This will relax the respondents and they will be more inclined to giving you more valuable information.
Respondents' suspicion and fear when the researcher uses a tape recorder when conducting interviews.	Focus on taking field notes. In case you want to tape the interviews, avoid asking directly for a permission to do so. The risk of being refused is extremely high. Approach this issue according to the situation. Use different techniques depending on whether you know the respondent or not.
	Reduce the effect of "confrontation" caused by the tape recorder by applying different techniques for the purposes of encouragement, reinforcement, query, etc.
Sampling Deficient enterprise registers (a vast number of non active companies and deficient addresses)	Combine various registers. Carry out large 'convenient' sampling.
Questionnaire Command of foreign languages may be weak.	Use local languages. Do back translation of questionnaire.
Terminology may cause misunderstandings.	Avoid the use of very modern business concepts and define the concepts, if possible. Conduct a pilot study.
Difficulties in designing scale in a manner, which would indicate the absolute advancement in the transformation towards market economy.	Focus on absolute transformation instead of relative transformation.
Possible bias concerning 5 plus point numeric scale.	Use a 4-5 point scale.
Data Collection High non-response of "non-personal" mail surveys.	Explain the purpose of the study clearly.
General managers do not have time to participate in the study	Focus the questionnaire by abandoning unnecessary questions.
Manager does not want to reveal information on ownership or enterprise performance.	Modify the sensitive questions to less sensitive ones. Start interviews and questionnaires with less sensitive issues.
Promotion of own management's or company's individual success by exaggeration of company's performance	Inform that the names of companies will not be mentioned under any circumstances in reporting research findings. Double check performance figures, if possible.

The distinction between relative and absolute change is reflected in the operationalisation of the research. An effective approach would be to concentrate on analysing the absolute state of a company in a transition economy in a given moment and then to repeat the research after a certain period of time. However, since we do not have opportunity to replicate the survey, a pragmatic way to explore the transformation and adjustment issues in the corporate level would be through a retrospective approach. In other words, by asking what state the organisation was in, for instance, in year 1991 when the Greek company invested in the Balkans and the amount of resources that it has committed since then, and by asking what characterised the change during these years. This is particular important if we want to examine the adaptation of the Greek companies in the Balkans irrespective of their ownership characteristics, i.e. joint ventures, acquisitions and greenfields.

If the questionnaire is too complex, it may lead to non- response. Thus, the questionnaires should be as clear and as focused as possible. The design of the mail questionnaire paid attention to the ease of completion, potential sensitivity of information, but it was not easy to avoid quantitative questions to secure high return and thus a good representation of the population.[11] The wording of the mail questionnaires and of the questions asked in the personal interviews were not strictly specified, but nevertheless focused since information is sought on an area experienced by the respondents. This enables us to direct and interpret the process to achieve the purpose of the data collection method, namely to focus research attention on the experience of the respondents as related to the purpose of the study (Merton et al. 1956).[12]

We tried to minimise the number of closed- ended questions since they may introduce bias. This happens either by forcing the respondent to chose from given alternatives or by making the respondent select response categories, none of which may really apply to their situation or frame of reference. Obviously this can lead to distortion of validity and

[11] Often micro- level studies turn to surveys and questionnaires as a source of useful company specific information. Regarding FDI motivation this is one of the best ways to find out exactly why companies chose to invest in a foreign country. By employing ranked- response questions and other types of quantifiable questions we could easily compared and analyse the data, although at the expense of providing less- detailed information.

[12] We obtained the case history material of the companies in the sample by using the structured interview method. Structured interviews were used because it seemed an appropriate technique for collecting detailed company information. The structured interview method enabled comparative data to be obtained, through the use of standard questions. By conducting a personal interview with the managers it is possible to overcome any suspicions they might have about my motives for obtaining information about their business activities (Mann 1985).

to an overuse of the response *do not know*. Therefore in the pilot questionnaire we mostly focused on open- ended questions, which were designed to study opinion. For exploratory research in which attitudes or type of behaviour are not known, the open ended questions would be better than closed type.[13] Although responses to open- ended questions in the pilot mail questionnaires were short and difficult to interpret some times our choice is justified on the previous grounds.[14] After scanning for information, and questions that can be used in the final questionnaire, our mail questionnaire contained mostly closed- ended questions. The author developed most measures, including those of motives, problems and others. These measures were developed based on the literature review and personal interviews with Greek managers.

The question of the most appropriate scale should also be given serious thought when questionnaires for transformation studies are designed. Questions were restricted to a 4 and 5- point scale because of pre test respondents' comments that numerous response categories (7 or more point scale) exceeded their ability to discriminate, producing *noise* rather than precise data.

Many transition studies have indicated that managers are extremely reluctant when it comes to supplying researchers with information on organisation performance. This is because the less controlled business environment of the transition economies has created an atmosphere of suspicion. A pragmatic way of avoiding non-response caused by very sensitive issues is to translate sensitive questions into less sensitive ones. For example,

[13] We considered the following issues in order to choose the open- ended questions for the pilot questionnaire (Lazarsfeld 1944, 1966). We wish to learn about the process by which the respondents arrived at a particular point of view. That gives us the ability to appreciate the validity of *what* the respondent said in the light of *how* he said it. Second, the respondents' level of information is high, thus an open- ended question can be asked. Third, it is particularly appropriate to use open- ended questions when we desire to know the respondent's frame of reference or the level of information possessed.

[14] Another reason for asking open- ended questions in the pilot mail questionnaires was to develop a clear understanding of the business environment since no adequate academic FDI literature exists for the Balkans. The objective here was to gain insight about the market environment facing Greek companies entering the Balkan markets during the early transition period. The published surveys in different Greek business magazines is not considered to be useful for academic research since they are based on surveys, which due to sampling errors are not accurate, having low degree of validity of findings. Furthermore, the different methodologies employed by the researchers suggest that they cannot and they should not be

asking about exact profit figures may lead to non-response, thus, a more appropriate method may be to ask about the percentage of the turnover or the change in profitability.

The exaggeration of management's or company's success has occurred in some researches in Greece, as exaggerating about the corporate performance is a characteristic of the Greek corporate culture. A concern of the survey is that data provided by the respondents may reflect the perception of the respondents rather than the *true* values for the variables, thus containing a response error. However, we believe that this will not generate distortion of the views in our research. The use of objective character questions might limit this concern. Furthermore, the accompanying letter with the questionnaires stated that the information provided would not be published and it is only for academic use. In other words, consciously to exaggerate the performance and activities of their companies would not have promoted the companies involved in the study. In addition, answers from the respondents will be compared to data available from other sources, such as company reports and other managers within the organisation, thus further reducing the concern for bias in the survey data.

4.3 Reliability, Validity and Relevance

Following Yin (1994), several measures were taken to ensure the validity and reliability of the data collection. The validity of the case studies was enhanced by using multiple sources of evidence during data collection including face to face interviews, mailed questionnaires, internal reports, published data from leading Greek business papers and magazines. To ensure reliability, the data collection was made using a structured questionnaire. The questionnaire ensured that all necessary information was requested as required by the research model. The mail questionnaire that was the main instrument for the survey data went through several stages of testing and development before reaching the final form. Last but not least, having access to relevant informants aspect, which

---

compared directly. The reliability and validity problems of these surveys are questionable, and any conclusions based on their findings and analysis should be drawn with some caution.

affects reliability to a great extent, the interviewed managers had in all of the cases good knowledge about the issue under investigation.

The need for correct analysis of narrative data is a decisive factor relating to reliability. In this study this has been safeguarded in two ways. First, the research instrument is made in such a manner that misunderstandings should not occur in the data- gathering phase. The questions were pre-tested during the preliminary- pilot questionnaire survey. Second, the participants were able to get a feedback on their answers to ensure that they reflected the real circumstances. In some cases additional information was added to ensure that facts and participants' views were correctly interpreted, thus ensuring external validity. Gathering data during the same time period (1989- 1999) in all cases has ensured validity issues and the comparability across companies and countries.

4.4 Strengths and Limitations of the Chosen Method

The difficulty in establishing samples for mail surveys arises from the fact that we cannot expect an answer from every company that appeared in the random selection of companies.[15] Depending on the study sample, the fact that some companies have had frequent contact with questionnaires was an asset in eliciting their- co- operation in the study. Familiarity with questionnaire format and structure may make completion easier (Anderson and Douglas 1974).

Since the cases selected all involved negotiations that covered the period 1989- 99, some time had elapsed between the actual negotiation and the interviews. Huber and Power (1985) suggest that information rationalisation and other memory biases may affect the accuracy of information obtained after the fact. In order to reduce the effects of these potential reporting biases, we addressed the questionnaires to the most knowledgeable informants, offsetting informants and pre tested questions. Additionally, managers were kindly asked to retrieve and review relevant company data prior to the questionnaire. In such situations, a mail questionnaire allowing some *intra- company consultation*, may lead to more accurate information (Kalton and Moser 1979).[16]

Incomplete information might result not only from the nature of the study but also because our study is initiated to look at specific aspects of corporate behaviour with the result that only a partial picture might be provided. Some parts of the study specifically chapter (?) intended to explore the role of the Greek companies in restructuring Balkan companies. Another part of the study intended to illustrate the link between ownership structure and company performance. The timing of the study also raises difficulties of interpretation. The interviews conducted in the last two years, but after 2 years time might be out of date, under the changing business conditions prevailing in the region. Therefore a longitudinal approach would be useful. However, we could not follow a population over time, and a longitudinal study by itself cannot identify and isolate the cause of the change (Hoinville and Jowell 1978).

An important downside is the lack of representativeness of the study findings, i.e., companies' performance may not be indicative of economy- wide trends. Furthermore, we do not have comprehensive data on all Greek companies in the Balkans. Therefore we cannot link easily a smaller sample of companies to the broader trends in the manufacturing or service sector. Another problem is the subjective narrative of

---

[15] That means that the actual number of questionnaires which we will be able to analyse will be less than the number in the original sample and that it might lose some of the *randomness* which makes sampling error mathematically measurable.

[16] Although the interview method is essential in understanding the interviewee's experience of strategic situations as expressed in their own words, this method of data collection has a major drawback in the sense that the interviewer faces the danger of relying exclusively on second hand accounts of others. Referring to this particular problem, Taylor and Bogdam (1996) assert that as a form of conservation, interviews are subject to the same fabrications, deceptions, exaggerations and distortions that characterise talk between any person. This limitation further gives rise to a related problem for the researcher, namely, that of the existence of discrepancies between what interviewees might choose to say in an interview occasion and what they actually did say. However we overcame this limitation by using official documents and company records as complementary tools for data collection in the research. The analysis of such documents not only provided knowledge about the attitudes and dispositions of those who have written and maintained them, but they also lend insight into the perspectives, assumptions, concerns and activities of those who produce them.

managers regarding the causes of restructuring. Therefore, we can only use the interviews to complement the analysis of the financial performance of companies in getting a better understanding of the elements of a successful restructuring strategy.[17]

The use of a common questionnaire gives a consistency of approach and an interpretive validity that permit stronger inferences to be drawn than could be from cases compiled for differing objectives. The use of parallel cases from the Balkan countries also helps to guard against biases within any one country, especially because cross- country comparisons are facilitated by efforts to match some companies across countries by sector, by size or by ownership type.

Exploratory research may be in particular useful for developing theory (Fredrickson 1983, Snow and Thomas 1994, Yin 1994). Considering that until today no systematic research concerning FDI and strategic decision making of companies in the Balkans has been undertaken, and no coherent theory exists, this kind of research may now be appropriate. When building theory, theoretical sampling is appropriate (Eisenhardt 1989). Therefore concerning our research theme, internationalisation, adaptation and performance in the Balkan economies, we have studied different size companies, with diverse activities in different industries. Thus the *characteristics* underlying different companies in our sample vary considerably, and for this reason the biases may cancel one another out to an extent (Simon 1969). In this way, the emerging theory may be tested in different settings, extending it and improving its external validity.

The main purpose of the research design employed in this study, is to ascertain the relevant variables for a particular area of study. Such an approach will be used to help formulate a framework for analysis. By being open, probing and seeking the *why, how, what* and *where,* we can minimise personal bias and maximise the gaining of new

[17] Unlike the macroeconomic outcomes of transition, which can be quantified, changes in the behaviour of managers and the way that companies are restructured are less amenable to quantification. Indeed it is quite difficult to establish performance criteria by which to judge whether the post- restructuring performance was successful or not.

perspectives. The flexibility inherent in our design does not mean absence of direction to the inquiry. Rather, flexibility means that the focus is initially broad and becomes progressively smaller as the research goes on (Adams and Schvaneveldt 1985).

The first aspect of the study, as has been established in the preceding discussion, is directed towards the identification of the main strategic roles assigned to Greek companies in order to generate a conceptual framework and comparative findings. This aspect of the study deals with the antecedent conditions that led to the specific strategies chosen by Greek companies entering the Balkan markets. Why are certain strategic decisions made? What factors influence certain strategic choices over others? The assumption is that these sets of questions will reveal significant data about the roles of strategies in making foreign market entry decisions. The employed methodology can develop a deep understanding of the relations between different actors in and around the companies. Of course there is a trade- off between the depth of studies and the number of them that can be carried out; the range of studies often offsets the lack of depth.[18]

As well as considering the problems that arise when looking at any company study, it is also necessary to be careful when looking at the full range of studies and drawing conclusions from patterns among them. When studying companies, bias can arise both in the selection method of the researcher and by the force of circumstance.[19] However, we avoided this bias, since we did not know in advance which companies are active in the Balkans, thus we did not choose a joint venture company that is responding actively so as to identify the dynamics of change. The return includes companies without business

[18] We studied with a relatively *small* sample that we could work for longer period of time, so to develop a deep understanding of the relations between different actors in and around the companies. Of course there is a trade off between the depth of the studies and the number of them that can be carried out; the range of studies offsets the lack of depth (Alreck and Settle 1995).

[19] As an example of the second type of bias, it is in general only possible to carry out a case study where one has permission from the management to do so. It may well be the case that those managers who are willing to give permission are precisely those who are more dynamic and less resistant to change. As an example of the first type of bias, it is often the case that companies studied are chosen as *interesting* examples of a particular aspect of transition that interests the researcher.

contracts in the region, as, *ex ante*, it was not known whether or not companies were active in the Balkans.

4.5 Conclusions

In this chapter we have ascertained the difficulties and problematic issues that arise when conducting empirical research in the transition economies. It questioned the notion of universality of the way various methods and techniques were applied in the field. The chapter provides insight as to how to solve some problems a researcher may meet when carrying out studies of Western companies in the former socialist bloc. Our reflections provide evidence of the specificity of the Greek companies in a transition economy context seen as a field for conducting empirical studies. The phenomena studied must be put in the specific context, otherwise data would remain meaningless. In other words, research that is not grounded in the context lacks relevance and construct validity.

A clear understanding of the context is needed in order to be able to cope with, and successfully administrate the different stages through which the fieldwork is taking place. This would broaden our view of methodological issues and dilemmas by conducting organisational studies. The examples listed in the chapter suggest that we need alternative approaches that are not preoccupied with holding onto and acting according to 'cook book' research approaches described in the western dominated methodological literature.

There are a variety of specific techniques we considered that are contextually based and that need to be explored in order to be able to generate data in an environment (Greek-Balkan business environment), which appears to be specific in many aspects. Our experience indicates that conducting research of Greek companies in the transition economies is influenced by three crucial elements: (i) universal requirements of scientific research, (ii) experience on special conditions of Greek companies, and (iii) sufficient resources. We did not only concentrate on requirements of scientific research, as even the most advanced research methods do not guarantee success if the research cannot be executed in the original form. In addition to requiring sufficient knowledge in general issues linked with conducting empirical research, the researcher must also have experience with transition-specific factors (based on the transitional experience of the Greek economy) as well as sufficient resources to be able to carry out the research successfully.

Conducting empirical research in the transition economies is sometimes as much creative art as perfectionist science. Transition economies present a tremendously interesting research laboratory for scholars interested in organisational and management issues. This chapter was aimed at offering a possible key to researchers about to sit in the driver's seat of a research vehicle. Some of the hints presented in this chapter may be worth reviewing before starting a research journey on the slippery and narrow roads of empirical research in transition economies.

CHAPTER FIVE

The Research Methodology- Definition and Analysis of the Employed Variables

5.1 Introduction

In this chapter we will provide the link between the literature that was reviewed in chapter two, and the variables employed in our research, so that the reader of this dissertation will be convinced that our approach and hypotheses are appropriate for the achievement of the objectives described and analysed in chapter one. In the first part, we present the characteristics of the companies in our sample, which are used to analyse the business activity of the Greek business in the Balkans.

5.2 The Sample

5.2.1 Sample Characteristics

Four hundred and three companies were contacted. The return figures (230) include responses from 122 companies that they are involved in FDI, 41 companies replied that they are not attracted by the Balkan markets, thus classified as indifferent, and 67 companies that explained that they are not active in the region in a FDI form, but rather through exports. Seventy- five companies did not reply to our questionnaire. In addition 98 companies replied that they are not willing to complete the questionnaire, mainly as a matter of corporate policy. The return rate of 57% is high relative and even better to similar studies on transition economies.[1]

Looking at table 5.1, food and beverages companies are relatively more active in terms of FDI in the Balkans, with financial services companies following. Food and beverages and textile companies demonstrate the same export activity. As we can see from table 5.1, labour intensive Heckscher- Ohlin- type industries such as textiles, food and beverages

[1] For more details see the studies of Meyer (1998), Genco et al. (1993), Wang (1993), Shaukat (1997).

are the main recipients in our sample of FDI and export activities in the Balkans.[2] In contrast with Greece's industrial and export structures, capital- intensive industries with significant economies of scale are dominant among the most internationalised companies. Highly skilled labour is the rule, and half of the industries represented can be considered to be technology- intensive. High- technology manufacturing, which includes pharmaceutical companies, electronic components manufacturers, telecommunication companies, as well as some food and beverages companies, indicates that the technological factor is indeed particularly significant in FDI, allowing companies to exploit their ownership advantages due to technological competence and know- how.

Table 5.1 Sectoral distribution of companies by types of market penetration strategy

Sector	Indifferent	Exports	FDI	Total
Tobacco	5	3	6	14
Food & Beverages	26	17	31	74
Telecommunications	0	0	7	7
Construction materials	0	0	13	13
Financial Services	0	0	19	19
Mining	0	0	7	7
Textile	6	17	14	37
Petroleum Products	0	3	5	8
Electronic equipments manufacturers	0	9	6	15
Furniture manufacturers	4	5	6	15
Plastic products manufacturers	0	9	6	15
Pharmaceutical companies	0	4	2	6
Total	41	67	122	230

Table 5.2 shows that in regard with the capital invested in the Balkan affiliates, 32 companies have invested more than US$ 10 million in their affiliates. Thirty- nine companies have invested US$ 5 million to US$9,9 million in their affiliates. Fifty- one companies have invested US$ 0,5 million to US$ 4,9 million in their affiliates.

Table 5.2 Questionnaire Returns in the FDI Category- 122 companies

Group	Capital invested in the Balkan subsidiary (in million $)	%	Number of companies
Large	More than $10,000,000	26%	32
Medium	$5,000,000- $9,999,999	32%	39
Small	$500,000- $4,999,999	42%	51
Total		100%	122

[2] This activity is in accordance with Jeon (1992) who noted that companies in Heckscher- Ohlin type of industries tend to pursue FDI in LDCs. Therefore the industrial structure of the outward Greek FDI in the Balkans could be expected to be quite different from inward FDI in the more developed EU economies.

Table 5.3 Distribution of Sectors According to the Capital Invested in the Balkan Affiliates

Sector	Small	Medium	Large	Total
Tobacco	1	5	0	6
Food & Beverages	11	11	9	31
Telecommunications	2	2	3	7
Construction materials	4	4	5	13
Financial Services	3	7	9	19
Mining	0	3	4	7
Textile	14	0	0	14
Petroleum Products	0	3	2	5
Electronic equipments manufacturers	5	1	0	6
Furniture manufacturers	5	1	0	6
Plastic products manufacturers	4	2	0	6
Pharmaceutical companies	2	0	0	2
Total	51	39	32	122

Table 5.3 shows the distribution of sectors according to the capital invested in the Balkan affiliates. Table 5.4 shows the distribution of sectors according to the capital invested in the Balkan affiliates and the mode of entry. Across the sectors, a variation can be observed. From table 5.4 it is clear that the majority of joint venture companies (15) have invested no more than US$ 4,9 million in their affiliates. In the acquisitions category, there is a mixed preference between the choice of *small (investments no more than US$ 4,9 million), medium (investments no more than US$ 9,9)* and *large (investments more than US$ 10 million)* affiliates, although the preference for *medium* and *large* affiliates is slightly stronger. On the contrary, for the greenfield investors there is a clear preference for *large (investments more than US$ 10 million)* affiliates. Observed ownership patterns differ across industrial sectors.

Table 5.4 Distribution of Sectors According to the Capital Invested in the Balkan Affiliates and Mode of Entry

	Joint Ventures			Acquisitions			Greenfield			
Sector	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large	Total
Tobacco	0	1	0	1	4	0	0	0	0	6
Food & Beverages	2	3	1	4	8	7	5	0	1	31
Telecommunications	0	1	2	0	1	2	0	0	1	7
Construction materials	1	0	0	1	1	3	2	3	2	13
Financial Services	1	3	2	0	0	5	2	4	2	19
Mining	0	0	1	0	3	3	0	0	0	7
Textile	9	0	0	1	0	0	4	0	0	14
Petroleum Products	0	0	1	0	3	1	0	0	0	5
Electronic equipments manufacturers	0	0	0	3	1	0	2	0	0	6
Furniture manufacturers	2	1	0	0	0	0	3	0	0	6
Plastic products manufacturers	0	0	0	4	2	0	0	0	0	6
Pharmaceutical companies	0	0	0	2	0	0	0	0	0	2
Total	15	9	7	16	23	21	18	7	31	122
Total per mode of entry		**31**			**60**			**31**		**122**

As we can see from table 5.4, the majority of the companies preferred the acquisition strategy, while the number of companies that chose greenfield or joint ventures is the same. With the exception of building materials companies and the service companies (financial service companies and telecommunications), acquisitions and joint ventures were the most preferred modes of entry in the Balkans.

Across the countries, a variation can be observed. From table 5.5 it is clear that in terms of the share of companies in our sample reporting FDI, Albania and Romania lead with 28% and 26% respectively, followed by Bulgaria 22%, FYROM 16%, and Yugoslavia 8%.

Table 5.5 Geographical distribution of the FDI

Sector	Albania	Bulgaria	FYROM	Romania	Yugoslavia
Tobacco	2	1	1	1	1
Food & Beverages	3	9	7	10	2
Telecommunications	1	1	0	2	3
Construction materials	7	2	1	3	0
Financial Services	3	8	2	5	1
Mining	1	1	2	1	2
Textile	9	0	5	0	0
Petroleum Products	3	0	1	0	1
Electronic equipments manufacturers	0	3	0	3	0
Furniture manufacturers	3	2	0	1	0
Plastic products manufacturers	2	0	0	4	0
Pharmaceutical companies	0	0	0	2	0
Total	34	27	19	32	10

5.3 Variables Used to Analyse and Explain the Internationalisation Decision Making Process

5.3.1 The Conceptual Framework

Notwithstanding the interest of previous research in the transition markets, and the very existence of FDI, which intend to exploit cost or financial advantages, strictly subjective motivation considerations have apparently weak influence on the explanation of company specific advantages and the presence of FDI in the Balkans (Rizopoulos 2001). Therefore, these approaches seem to be insufficient to explain FDI in the Balkans and therefore, it seems necessary to propose a more *ownership specific framework* to explain FDI activity on behalf of the Greek companies. Competitive company advantages or disadvantages are the main factors explaining international transfer of assets, which seems to constitute an appropriate basis to analyse Greek FDI in the Balkans (Rizopoulos 2001). In this perspective, FDI can be defined as a strategic movement tending to exploit, preserve or acquire specific advantages of the companies.

Much of the literature on foreign market entry concerned the choice between exporting and FDI (Root 1987, Young et al. 1989, Buckley and Ghauri 1993). The cost- based view of this decision suggests that a company must possess a *compensating advantage* in order to overcome the *costs of foreignness* (Hymer 1976, Kindleberger 1969). This led to the identification of ownership specific advantages as the key elements in successful foreign entry (Hirsh 1976, Horst 1972).

Dunning (1993) has emphasised that the returns to FDI, and hence FDI itself, can be explained by the competitive-ownership advantages of companies, indicating who is going to produce abroad *and for that matter, other forms of international activity* (ibid: 142), by locational factors *influencing the where to produce* (ibid: 143) and by the internalisation factor that *addresses the question of why firms engage in FDI rather than license foreign firms to use their proprietary assets* (ibid: 145). Companies having ownership specific advantages are expected to exploit them more profitable outside their domestic market (Dunning 1981, Teece 1986).

Location factors are not stressed and are controlled (partially) since only a homogeneous area[3] (the Balkans) is studied and we only considering Greek subsidiaries, following the proposition of Nitsch et al. (1996) and Woodcock et al. (1994). We recognise that country- specific differences exist between the Balkan markets, but we feel that grouping them in this fashion is defensible in light of Greece's stated objective to develop itself in a single, common, united *Balkan Economic Area* (Labrianidis 2000).

[3] This practice of focusing on these countries as one group of transitioning economies can be found in Fischer and Gelb (1991), Kornai (1992), and Peng (1993), among others.

We treat the Balkans as a single market for the following reasons: (i) all the economies are very similar on broad- based economic measures towards the transition process from a command to a market economy. Considering some general indicators of progress in transition to a market economy, we find that all countries are in a very similar situation (EBRD Transition Reports 1998, 1999, 2000), (ii) geographic proximity to Greece; (iii) constraints of economic development are similar to all the Balkan countries. Their common experience under the central planning regime suggests that they are all members of a broader, clearly identifiable class of social- political- economic systems (Kornai 1992). Second, their phenomenal transition toward market- based economies, albeit with different speed and pace, have led to a similar changes in their institutional infrastructure; (iv) over 78% of all the industry sectors in our sample are located in all the Balkan countries, thus, we are able to absorb any specific locational differences; (v) from a certain point of view the Balkan countries resemble Greece. Following the fall of Greece's *autarchic* economic policies in the mid 1980s, Greece took steps to attract FDI and put in place the preconditions for growth. Greece has integrated into the EU. It has stabilised the macroeconomic indicators and liberalised the national market. It has succeeded in attracting increasingly sophisticated FDI, and it is in position to attract net transfers and structural aid from the EU. This past experience is an asset to the Greek companies in the Balkans. They draw on their expertise in the Greek market to overcome the inefficiencies of the Balkans.

5.3.2 Hypotheses and Variables

According to the OLI paradigm, ownership advantages combining with locational advantages are a necessary condition for international business. In this section, ownership advantages are discussed with respect to their relevance for business with the Balkans to develop propositions on determinants of Greek- Balkan business. The kinds of ownership advantages considered, based on the literature review in chapter two, are financial asset advantages (Oa advantages), economies of common governance (Ot advantages), and threats to existing O-advantages requiring cost oriented restructuring. For the ownership characteristics of the companies the data were obtained with a one-year lag. The reason that the data were obtained with a one- year lag is that the companies were willing to provide only the last year's data.[4]

In chapter eight, we have used a *different set* of ownership specific advantages variables, for analysing the preference of ownership strategies on behalf of Greek companies. The reason that some company characteristics such as profitability and advertising expenditures were omitted in chapter seven, is that these variables made the explanatory ability of our model rather unsatisfactory. The resulting multinomial logistic regression had a statistically insignificant (statistically insignificant chi- square value) overall explanatory power ($p>0.10$). Furthermore, in each of the pairs examined, export vs. indifferent, FDI vs. indifferent, FDI vs. export, the regressions had a statistically insignificant explanatory power ($p>0.10$).[5]

a) Financial Asset Advantages

Financial resources are a company specific advantage in the presence of asymmetric information about investment projects (Myers and Majluf 1984). Therefore, companies with internal funds, or low leverage, are more likely to choose FDI entry while companies that need to raise funds externally prefer lower risk modes of entry Chatterjee (1990). The financial resources of the investing company thus determine its ability to establish operations that draw on the investors' own transferable resources.

H1: the higher the total debt of a company, the less likely it is to prefer a capital investment activity such as FDI in the Balkans, than an export or indifferent strategy.

[4] Any effort to ask for the data of the past two to three years in many cases was not successful and the nature of the bureaucratic mandate of Greek Company House where the data of most the Greek registered companies are available was not very supportive towards our research.

[5] To isolate ownership advantages from internalisation aspects all forms of international business are considered jointly. This includes not only FDI but also trade. However, we do not have any information about contractual cooperation agreements, thus we exclude this case from our analysis. Three alternative expansion strategies are distinguished, i.e. exports to the Balkans, FDI to the Balkans and finally any other strategy indifferent to the Balkan region.

H2: the higher the total debt of a company, the less likely it is to export in the Balkans, thus being indifferent to the Balkan markets.

H3: the higher the long- term debt of a company, the less likely it is to prefer a capital investment activity such as FDI in the Balkans, than an export or indifferent strategy.

H4: the higher the long- term debt of a company, the less likely it is to export in the Balkans, thus being indifferent to the Balkan markets.

b) Advantages of Common Governance

Advantages of common governance are defined by Dunning (1993) as advantages of organising Oa-advantages with complementary assets. He distinguishes advantages of branch plants of established companies over de novo entrants, and advantages from international experience as such. At firm level, a large corporation can economise on headquarters functions, such as marketing and finance. These economies of common governance of multi-plant companies create advantages that rise directly in relation to the company size (Buckley and Cason 1976, Caves and Mehra 1986). Investing abroad may entail certain fixed costs, which must be incurred if any foreign production is to occur. The size of the company, as measured by its assets (Kogut and Singh 1988, Yu and Ito 1988), would seem to be crucial for several reasons. The assumption is that the size of the company affects its decision to enter a foreign country and the form of its involvement (Kumar and Steinmann 1991). Because large companies are often considered better credit risks than small companies, large companies may have an easier time financing the fixed costs entailed in investing abroad. If foreign investing is perceived to be inherently risky, the risk may appear to be relatively more foreboding to a small company than to a large one (Horst 1972). The size of the company reflects its capacity for absorption of these costs (Buckley and Casson 1976), for achieving economies of scale (Hood and Young 1979), and is expected to positively correlate with its propensity to enter foreign markets.[6] On this interpretation the size variable may incorporate all or most of the other ownership- specific advantages, thereby producing a cumulative and dynamic effect on the expansion of companies (Hood and Young 1979). Thus, larger companies have lower marginal costs of adding the Balkans to their operations. They can be predicted to be more active in Balkans and smaller companies.[7]

H5: the larger a company is the more likely is to prefer FDI in the Balkans than an export or indifferent strategy.

H6: the larger a company is the more likely is to prefer export in the Balkans than being indifferent to the Balkan markets.

International companies have competitive advantages that arise from their international activities as such. This includes international accumulation of know how (Cantwell 1989), arbitrage opportunities, flexibility for production shifting (Kogut and Kulatilaka 1994), superior recognition of opportunities, and international diversification of risk. A company's level of international experience has also been shown to influence entry choices. Companies with higher experience may be expected to prefer investment modes of entry. With increasing experience, companies acquire knowledge of foreign markets, perceive less uncertainty, and become more confident of their ability to correctly estimate risks and returns and manage foreign operations (Johanson and Vahlne 1977, Davidson 1982). As a result, they become more aggressive in committing resources and assuming control (Anderson and Gatignon 1986).[8] Greek companies, which are more familiar with

[6] The more frequently transactions incur the lower is the internal transaction cost per transaction. This effect reduces fixed costs, and thus making internalisation more likely (Williamson 1985).

[7] Empirical evidence indicates that the impact of company size on FDI is positive (Buckley and Casson 1976, Caves and Mehra 1986). Grubaugh (1987) tests the determinants of US FDI at a sectoral level. He finds that size tends to favour multinationality, a result compatible with Horst's (1972) seminal study on company determinants of FDI. As Grubaugh argues, these findings support Hymer's hypothesis about the importance of size in encouraging a company to become a multinational. Juhl (1979) examines the sectoral patterns of German FDI in Less Developed Countries (LDC). His results confirm the importance of size as the main determinant of such a strategic decision.

[8] Companies without foreign market experience are likely to have greater problems in managing foreign operations. Less experienced companies perceived considerable uncertainty, overstate risks and understate returns (Davidson 1982). Thus, they shy away from making significant resource commitments and assuming control (Johanson and Vahlne 1977). This makes the choice of not investing more probable (Caves and Mehra 1986, Gatignon and Anderson 1988, Terpstra and Yu 1988).

foreign tastes and habits, may want to create export platforms there from which to satisfy other foreign markets. Companies may not be interested in satisfying just the demand of the Balkan markets but in using their local plants as export platforms as well.

Companies with international experiences thus can be expected: (i) to know better how to make best use of new opportunities in the Balkans; (ii) to have lower costs of entry as they utilise synergies with other international operations, and (iii) may increase the value of their network by covering more countries. Companies with international experience can use their industry- specific skills developed in foreign countries to overcome any market specific inexperience vis-à-vis local competitors (Vernon 1966, Caves 1971, Galbraith and Key 1986).

H7: the more a company exports, the more likely it is to prefer FDI in the Balkans than an export or indifferent strategy.

H8: the more a company exports, the more likely it is to prefer to export to the Balkans than being indifferent to the Balkan markets.

H9: the more geographic diversified exports are the more likely a company is to prefer FDI in the Balkans than an export or indifferent strategy.

H10: the more geographic diversified exports are the more likely a company is to prefer exporting in the Balkans than being indifferent to the Balkan markets.

c) Threats to existing ownership advantages

Trade theory suggests that location of foreign production would be based on comparative advantages of cost factors. FDI would move where production costs are lower. However, the low cost factor is a very incomplete framework to analyse the location of FDI. While popular debate is often focusing on production costs, research suggests that attraction of markets is at least as important (Meyer 1997, Caves 1982, Dunning 1993). Dynamic

Greek companies facing constraints to growth, or threats to survival, with their present strategic configuration are forcefully pushed into exploring new opportunities. Barriers to growth rise in their present markets (both Greek and international markets). If markets are saturated or rising costs reduce competitiveness in established markets, this creates strong inducements towards restructuring, relocation and search for new markets in the Balkans. Such a strategy is likely to include high start-up costs thus demand more dynamic followers.[9]

H11: the higher the growth rate of sales, the more likely a company is to prefer FDI in the Balkans than an export or indifferent strategy due to market opportunities in the 'virgin' Balkan markets.

H12: the higher the growth rate of sales the more likely a company is to prefer to export in the Balkans than being indifferent to the Balkan markets due to market opportunities in the 'virgin' Balkan markets.

The high wage costs in Greece in the early 1990's put competitive pressures in particular on labour intensive production. The developmental model of FDI (Ozawa 1979, Meyer 1997) stresses the importance of such competitive push for the relocation of production and sourcing. If the model is applicable to the Balkans, sourcing of intermediate inputs and even relocation of production would be a major motivation for business activity. If companies use FDI to minimise costs, they will move to the location where production costs are lowest. Companies with labour intensive production processes are most likely to shift procurement to the region, or to set up local production. We emphasise the role of labour costs arguing that labour intensity positively influence FDI taking into

[9] Market related advantages are becoming increasingly important. This can be attributed, firstly, to worldwide converging structures of demand for many goods. Secondly, economies of scale and scope allow the use of physical production facilities and intangible assets to serve multiple markets. More importantly, product development and other research activity have a high component of sunk costs that enable supply of additional markets at low extra costs. With high development costs, few if any competitors are likely to giving opportunities for selling a product globally, and lengthening a product cycle. Markets also become the overriding consideration for the location of production in the presence of protectionism, transportation costs, or close interaction between the productive and sales operations. This investment depends primarily on the potential market (market size and growth).

consideration the low cost labour force in the Balkans. In labour intensive industries, there is an incentive to take advantage of cheaper labour costs in the Balkans through FDI. Thus, following the literature emphasising the importance of labour costs for decisions over location of production to the Balkans, the following hypothesis is proposed.

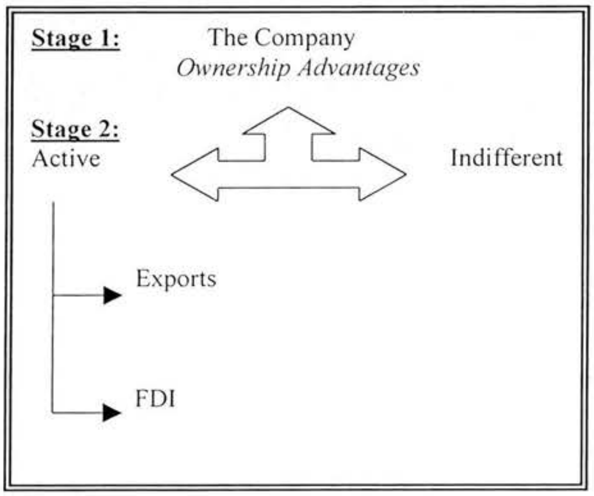
H13: the higher the unit labour costs of a company, the more likely it is to prefer to relocate their business activities in the Balkans, than an export or being indifferent to the Balkan countries.

H14: the higher the unit labour costs of a company, the more likely it is to prefer to export in the Balkans than being indifferent to the Balkan countries.

Greek scholars studying the internationalisation activities of Greek companies in the Balkans *systematically continued* to differentiate between companies active in FDI and companies exporting in the Balkans. In addition, they did not consider why certain Greek companies show no interest in any of these two internationalisation approaches. By doing so, they failed to capture the creation of a *theoretical infrastructure* of the differences prevailing among these three company categories, which is a critical aspect for understanding and explaining their similarities and differences. This is important if we consider the lack of previous experience and of suitable structures for internationalisation, which characterised the majority of Greek companies of the 1980s and the early 1990s.

In figure 5.1, by distinguishing between Greek companies that commit themselves in FDI or export activity or simply indifferent to any of these two strategies, we take into account, among other things, their ownership specific characteristics discussed in the literature review and on the above stated hypotheses, and are summarised in the following table. By not evaluating the companies' ownership specific characteristics differences, we do not notice how these advantages influence their strategic decisions. Individual cases are incorporated and examined in taxonomical isolation (export vs. FDI, export vs. indifferent, FDI vs. indifferent) in chapter 7 for the purpose of a comparative analysis.

Figure 5.1 Stages of expansion strategy choice



The ownership characteristics we use are summarised in table 5.6, include a set of variables that represent financial-asset advantages, size advantages, human capital advantages, growth rate of sales, and finally, following the example of Agarwal and Ramaswami (1992), Erramilli (1991) and Kogut and Singh (1988), advantages related to the geographical diversification, and export intensity of the companies.

Table 5.6 Definitions of the Variables of Greek Parent Companies

Variables	Definition
Financial Asset Advantages	
TDEBT	Total debt/ total assets
LDEBT	Medium & long- term debt/ total assets
Advantages of Common Governance	
SIZE	Total capitalisation of the company (measured in €).
INTL_T	Value of exports/ sales of the Greek parent company
GEOGR	Number of different geographical markets in which the Greek parent company is active
Threats to existing ownership advantages	
GROWTH RATE	Percentage change of sales in the year of the investment over the previous year, and is used as a proxy for growth.
LABOUR	Number of sales/employees

Table 5.7 Expected Coefficients

Variables	Export vs. FDI	Export vs. Indifferent	FDI vs. Indifferent	Hypotheses
Financial Asset Advantages				
TDEBT	-	-	-	H1, H2
LDEBT	-	-	-	H3, H4
Advantages of Common Governance				
SIZE	+	+	+	H5, H6
INTL_T	+	+	+	H7, H8
GEOGR	+	+	+	H9, H10
Threats to existing ownership advantages				
GROWTH RATE	+	+	+	H11, H12
LABOUR	+	+	+	H13, H14

5.3.3 Analysis of the Descriptive Statistics

As we can see from table 5.8, the descriptive statistics for the companies in the FDI category are in line with the initial expectations as these were explained and presented in the hypotheses. That is, the companies in the FDI category have a lower total and long-term debt, are larger (in terms of their total capitalisation). Furthermore, they are more export orientated both in terms of exports' turnover and number of foreign markets that they serve, they are more dynamic in terms of their turnover growth, and they are more labour intensive compared to the companies in the export and indifferent category.

Table 5.8 Total sample descriptive statistics of Greek companies' ownership advantages

Variable				
	Total	Indifferent	Exports	FDI
	N=230	N= 41	N=67	N=122
Tdebt (% of total debt)	46.9(20.3)	50.9 (15.6)	47.0 (18.5)	45.6 (22.4)
Ldebt (% of long term debt)	12.0 (13.2)	14.0 (13.1)	13.9 (14.1)	10.5 (12.6)
Size (total capitalisation in million €)	45,1 (141,5)	4,2 (5,0)	7,4 (7,5)	79,6 (187,9)
Growth rate (% change in turnover)	11.8 (13.5)	11.4 (14.3)	9.32 (14.4)	13.3 (12.6)
Labour (sales/ employees)	127,647 (218,449)	49,860 (36,273)	59,125 (52,974)	190,739 (282,363)
Intl_t (export turnover/ total turnover) in %	9.0 (10.5)	2.1 (6.1)	8.4 (9.5)	11.4 (10.9)
Geogr (number of export markets)	6.5 (6.7)	1.4 (3.9)	6.1 (6.7)	8.2 (6.7)

Indifferent companies carry higher total and long-term debt burden, are less labour intensive, and less geographically diversified in terms of their exports than the FDI and export companies. Indifferent companies have lower growth potential compared to the FDI category, but contrary to what was expected, they have higher growth potential than the export orientated companies. Export orientated companies carry lower debt burden than the indifferent companies but higher than the FDI companies, while their relative size is smaller than the FDI, but bigger than the indifferent companies. They are also less labour intensive than the FDI, but less labour intensive than the indifferent, more geographically diversified in terms of their exports than the indifferent but less diversified than the FDI companies, while their export intensity is higher than the export intensity of indifferent companies, but lower than the FDI companies. Last but not least, their growth potential is lower than the other two categories of companies.

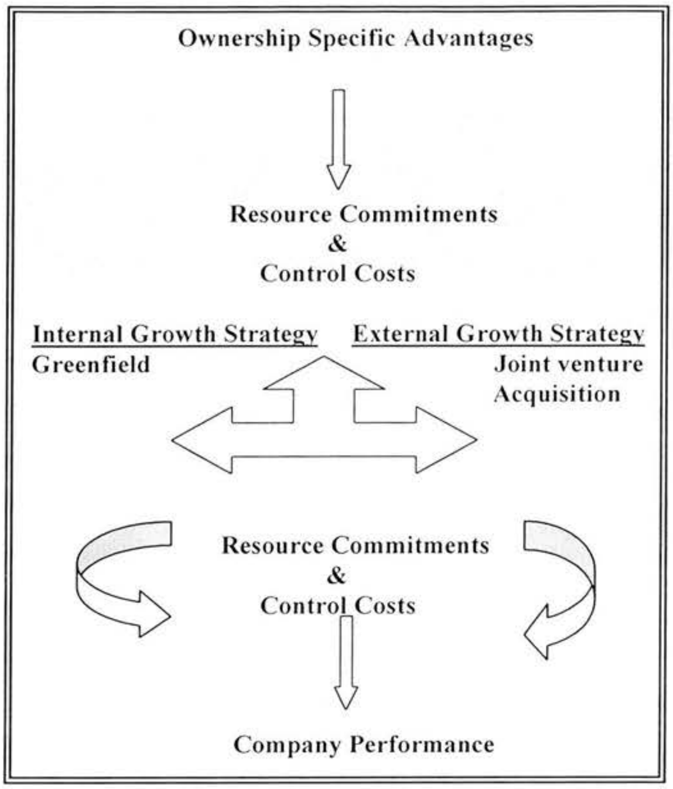
5.4 Variables Determining Ownership Structures in the Balkans

5.4.1 The Conceptual Framework

The previous section has focused on the determinants of FDI. This section takes the analysis one step further by investigating investment characteristics, based on a **transaction costs theory** of ownership choice and upon the **ownership- company specific** based view of the company. The model considers the entry mode choice as a decision over the origins of the resources that shall be employed in the new venture. The model is applied to analyse the ownership structure Greek companies select when investing in the Balkans by using an eclectic approach based on the transaction cost theory (Andersson and Svensson 1994).

In choosing the desirable ownership structure, Greek companies should decide whether full or partial ownership of the affiliate's assets is preferred and what degree of partnership, if any, they want to establish with partners. That is, companies should choose the degree of partnership as well as the degree of control that they want to have over their affiliates. Our analysis will be based on the assumption that companies aim at maximising their expected rate of return from operating abroad, which, in turn, implies minimising the risk and cost of establishing their production units abroad. The viewpoint adopted in this section, and analysed in the review of the literature, is that international entry mode choices are most usefully and tractably viewed as a trade-off between control and the cost of resource commitments, often under conditions of considerable risk and uncertainty (Calvet 1981, Caves 1982, Davidson 1982, Root 1987, Vernon 1983, Hill et al. 1990). (See figure 5.2)

Figure 5.2 The Choice of Entry Mode



Since a company may choose to share the ownership of its affiliate abroad for a variety of economic or strategic reasons, this section will be concerned with the identification of the factors that might determine such a choice. We will mainly focus on the economic reasons for the observed variety of ownership structures. The operational definition of the modes is as follows. A greenfield mode was defined as an entry involving one parent, which built and operationally equipped the plant. An acquisition mode was defined as an entry that involved only one parent, and plant and equipment were purchased from the previous owner. A joint venture was defined as an entry that involves more than one parent (a Greek parent company and an existing Balkan company), and the parents operationally equipped its plant. These definitions ensure that the entry modes are mutually exclusive (Woodcock et al. 1994: 265).

Most studies on the foreign establishment mode treat greenfields and acquisitions as representing alternative establishment modes, with joint venture being only a matter of the degree of ownership (Zejan 1990, Hennart and Park 1993). While accepting the theoretical reasons and empirical evidence for such a position, Kogut and Singh (1988) argue for the need to treat joint venture as a third alternative mode. This study follows the proposition of Kogut and Singh (1988) by including joint venture as a 3^{rd} alternative entry mode.

International business is subject to higher transaction costs than most domestic business, due to extensive imperfections on international markets. This makes the choice of an optimal organisational form a key issue in international business strategy. Companies have developed special modes to cope with international challenges. Companies entering a foreign market can choose among an array of possible organisational modes, including joint- or wholly-owned ventures. These alternatives differ in the control that the entrant attains over the local operations, and have been analysed in the international business literature by applying transaction cost economics (e.g. Anderson and Gatignon 1986).

Greek companies will decide on the extent of ownership (or, otherwise, on the degree of control) of their affiliates abroad taking into account the costs and benefits resulting from their alternative choices. The benefits depend on the affiliate's profits and the amount of transferable assets, for which a price has to be agreed. The costs depend on potential spillovers, due to leakage of important information-based assets to competitors within the same industry, which may lead to a reduction in future profits, and monitoring expenses necessary to prevent agency problems connected to controlling an investment and its related workforce in a foreign, unfamiliar market. Maximisation of net profits from operating abroad with respect to the ownership share provides the optimal demand for it. In particular, optimal ownership can be thought of as a mechanism to provide maximum gains as well as to protect proprietary rights, which cannot be fully contracted out and, at the same time, as an incentive device for reducing monitoring costs.

Transaction cost theory arguments together with ownership advantages, and resource-based theory considerations influence the set of determinants of the optimal ownership as produced by the maximisation of net profits. Our analytical framework draws upon both resource-based and transaction-cost theories. The resource requirements have to be matched with resources available to the investor through an acquired company. Beyond this, the decision has to account for the costs of *acquiring* and integrating the resources causing costs of two kinds: transaction costs in the markets where resources are acquired, and costs of adapting an acquired and/or transferred resources to the needs of the project. The model presented complements the literature with insights gained through our case research on foreign investment into the Balkans.

Company and industry characteristics can be used as relevant proxies. Company size, providing market power and hence potential increases in future profits, is hypothesised to positively affect the full ownership choice. Company characteristics, such as profitability and growth rate exert a similar effect, while capital intensity and resource intensity may lead to sharing ownership. The already-existing presence in foreign markets may create information externalities, thus reducing the need to share ownership with domestic partners. R&D intensity together with labour costs are thought to induce foreign companies to select full ownership, while marketing intensity is hypothesised to exert a negative influence on sharing ownership.

In many ways, the entry mode findings will be a reflection of the nature of the ongoing process of economic transformation that can be found in the Balkans. In this context establishment strategy refers to the company's choice of whether to enter a new market by buying existing units in the host country, that is acquisition or through establishing new ventures, that is greenfield.

5.4.2 Hypotheses and Variables

a) The Resource Dimension

To understand the contribution of the resource- based view in the framework it is necessary to review factors that influence mode choice. Resources can be obtained in bundled form by taking over an existing local company - an acquisition, they can be redeployed within the company to establish a greenfield venture, or invest together with a local company- a joint venture. The ownership choice depends first on the resources needed, behind which lie the strategic objectives of the project, and second on the resources that are found (i) within the entering Greek company, and (ii) in bundled form in local companies.

The strategic intent of an investment often predetermines its entry mode. Frequently, FDI is undertaken to pursue strategic objectives concerning the control of some local resources in foreign markets. The type of resources sought varies with the strategic intent, for instance resource-seeking investment. Resource-seeking investment may aim at utilising the human capital of a local company due to wage differentials. To access local human capital, a direct take-over may be more efficient because setting up a new operation and hiring key individuals does not permit the entrant to tap team-embedded tacit knowledge. Resources in the target industry are also essential for companies operating abroad in resource intensive industries as they lack industry-specific assets. They face higher operating costs in the new markets because they are less well equipped to build an operation *de novo* (Teece 1982). Thus, resource requirements arising from the strategic intent may shift the balance of arguments between the investment modes, often in favour of an acquisition. If the local resources are a necessary but not sufficient condition for the success of the new operation, then investors may choose joint ventures rather than acquisitions.

Since a major motive underlying FDI in the Balkans appears to be resource seeking, we explore the possibility of labour costs affecting the Greek companies' choice regarding the affiliate ownership structure. Transaction cost considerations may lead the companies to share in order to gain access to skilled labour (Monteverdi and Teece 1982, Anderson and Schmittlein 1984). On the other hand, given that it is unreasonable for companies to pay relatively high wages for nothing, the rationale behind a possible labour cost effect is that industries may experience high unit labour costs due to a skilled and highly qualified workforce. Companies operating in those industries may possess an intangible asset-workforce's capabilities, which is likely to yield large profits. Therefore, we explore whether high unit labour costs tend to lead to high foreign ownership share.

H15: The more labour intensive a company is, the greater the probability of observing fully owned affiliates.

From the data provided in the questionnaire as well as following Gomes- Casseres (1989, 1990), we identified as resource- intensive the industries of food and beverages, tobacco, textile, furniture, plastics, petroleum, construction material, telecommunication and pharmaceutical companies. It seems plausible that access to the best resources is already in the hands of local companies, and that the best way to access these resource is to invest in the local company that holds them. Production processes specialised in the use of a particular input quality may be dependent on one source for their raw material. Such dependence arises particularly in industries processing natural resources (Williamson 1981). Resource orientated companies may not find a way to efficiently contract out the required resources and set up fully- owned affiliates thus use the joint venture channel to gain access to them.[10]

H16: The more resource intensive a company is, the more likely is to choose shared ownership.

b) Transaction Costs Incentives

A major cause of market failure is asymmetric information on properties of the product to be transferred (Arrow 1971). Related phenomena are externalities from the public good character of knowledge within the firm (Caves 1971:4), and the free-rider potential for users of brand names who may degrade the quality of products (Anderson and Gatignon

---

[10] Availability of resources is a major driving force for the expansion of Greek companies in the Balkans. The redeployment of resources from Greece can in part offset the costs of entry, reducing entry costs of greenfield vis-à-vis acquisitions and joint ventures. Therefore, greenfield could be more feasible for Greek investors with resources that can be transferred and constitute core competences of the new business subsidiary in the Balkans. Such resources can be employed in the Balkan subsidiary without incurring the initial sunk costs of their development, and the subsidiary can attain competitiveness from competences and resources shared with the investing company. This makes greenfield a natural choice for companies with a strong competitive advantage. Companies that can transfer their resources in the Balkans wish to build a subsidiary, which replicates the production technology and- or organizational structure of their existing operation. On the other hand, companies with competences that are bound to the location need to acquire new resources for project, by acquiring a domestic company or by setting up a joint venture with a local partner.

1986). These properties of knowledge inhibit the use of contracts for its transfer. Therefore, international business scholars such as Buckley and Casson (1976), Rugman (1981), and Casson (1995) argue that information asymmetries and related market failures are a rationale for the existence of multinational companies.

Information asymmetries arise especially for firms with knowledge-based assets. Technology intensive companies face information asymmetries in the transfer of production technology, in uncertain assessment of market opportunities for innovative products, in the necessary feedback from sales to product development, as well as in the training-needs of sales and service personnel (Caves 1982). Information asymmetries may require multiple quality and quantity controls and thus increase measurement costs (Hennart 1982). Second, measurement costs increase with the transfer of information, such as marketing, and technological knowledge, especially of recent origin (Williamson 1981). Product sensitivity also increases with the transfer of product innovations, which are more difficult to evaluate than process innovations (Brada 1981) and with the transfer of unstructured, poorly- understood products and processes (Anderson and Gatignon 1986).

Kogut and Zander (1995) differentiated between joint ventures and wholly owned subsidiaries in their study of the impact of knowledge transfer on mode choice. Noting that knowledge- transfer is most efficient in wholly owned subsidiaries, they showed that the more tacit, less *teachable* and more complex company specific knowledge is, the more likely it will be transferred via a wholly owned subsidiary. This suggests that companies with greater reliance on difficult to transfer knowledge will prefer the wholly owned mode to others (Anderson and Gatingnon 1986 and Kim and Hawng 1992). Caves (1996) argues that the choice of ownership structure for the affiliate can be significant affected by the potential risk of misappropriation of the technological developments.

When the company is research intensive and property rights are weakly protected, foreign companies are more likely to establish fully owned affiliates (Davidson 1982), thus protecting the long- term viability and a company's competitive position from sharing or exposing core resources to a potential competitor. A fully owned affiliate has the advantage of being tailor-made to fit the foreign company's objectives with respect to R&D. Additionally, all the potential gains of these activities can be fully internalised by the affiliate and parent company. In case of partial ownership, the cost of co-ordinating, monitoring and defining the proprietary rights may outweigh the potential gains of a partnership with local agents.

H17: The more research intensive is the company, the more ownership the company demands in its affiliate and, hence, the greater the probability of observing fully owned affiliates.

The marketing of goods is information- intensive. The units co-ordinating local marketing exchange sensitive marketing information with headquarters. Moreover, control of product quality is essential to maintain the reputation of a worldwide brand. It would be expected that in industries where sales- promotion expenditures are important, this might lead the company to be strongly concerned about free riding on its brand name.[11] Taking a full ownership in the affiliate may be the way selected by the company to protect its intangible assets from misappropriation. The assumption implicit in this proxy is that money spent on advertising generates company specific assets in the form of brand recognition and product differentiation. We suggest that when companies operate in marketing intensive industries they are more likely not to share ownership (Anand-Delios 1996). Therefore, companies that invest heavily in brand- name capital will avoid free riding by other companies by preferring wholly owned subsidiaries.

H18: The more marketing intensive a company is, the greater the probability of observing fully owned affiliates.

[11] The reputation of the expanding company is also affecting the choice of the foreign mode of entry. Companies must invest heavily in advertising and their brand name to obtain a good reputation. This process of reputation building is time consuming and uncertain. High investments in reputation do not automatically lead to a good reputation. Each minor deviation from the behaviour that the company prescribes may have a disastrous impact on the company's reputation.

c) Ownership Advantages- Financial Asset Advantages

The greater the size and the market power of a company, the larger will be its potential for increasing profits. Therefore, the larger the share that the foreign partner may demand. The larger in terms of its capital invested, an affiliate is, the more likely is to possess the necessary financial resources for full ownership of its foreign subsidiary and its better positioned for a more resource demanding full ownership structure than a smaller company.

On the other hand, a Greek operation in the Balkans that requires larger resources relative to the resource availability of the parent company in Greece is more likely to be structured as jointly owned. We examine whether resource limitations (including size) make the Greek companies prone to utilise proportionately more joint ventures, which allow them to share costs and risks, as well as complementary assets and skills with host country partner companies.

H19: The larger in terms of its capital invested, an affiliate is, the greater the probability of choosing full ownership choice.

Companies characterised by high capital intensity require a large resource commitment but may yield large profits. Although high profits may induce companies not to share ownership with local partners, high capital requirement may lead them to share potential financial risks by engaging in a partial ownership structure. This may be particular relevant if the Greek company cannot afford the entire investment and sees the partnership option as a way to complement its resources

H20: The higher the capital intensity of a company is, the greater the probability of sharing ownership.

Profitable companies interested in maximising their share in profits in the Balkans require a larger share in the ownership structure of their Balkan subsidiary, which may yield larger profits. Future profits may induce companies not to share ownership with local partners, thus engaging in a partial ownership structure.

H21: The higher the growth in profits is, the greater the probability of choosing full ownership choice.

In growing companies, expected profits from an affiliate may be greater than those in less growing or declining companies. Therefore, the foreign partner's demand for ownership will be higher, the more dynamic the Greek company is.

H22: The higher the growth of sales is, the greater the probability of choosing full ownership choice.

d) Ownership Advantages- Advantages of Common Governance

The gradual increase of companies' international involvement is explained by an interplay between the development of knowledge on foreign locations and operations in the countries, and, on the other hand, an increasing resource commitment. Knowledge on foreign markets is experiential knowledge, which cannot be taught. It can only be acquired through experience and active involvement in the country. Such knowledge is essential for resource commitment because it enables recognition of business opportunities and reduces market uncertainty. Therefore, past commitment and accumulated experience in foreign markets determine the future activities, resource commitments and involvement on a foreign market. A company with greater international experience is more likely to be able to bear the risks and management responsibility associated with full ownership of foreign operations and thus, may find it less compelling to form a joint venture to share risks (Caves and Mehra 1986).

On the other hand, greater international business experience may enable the company effectively to deal with the costs and uncertainty associated with accepting equity partners and to become more willing to choose shared ownership (Zejan 1990).

Therefore, we explore whether international business experience tend to lead to high foreign ownership share. We argue that the companies' choice of entry mode depends on the strategic relationship it envisages between operations in different countries.

H23: The more experienced in foreign markets a Greek company is, the greater the probability of observing fully owned affiliates.

The above stated hypotheses provide the opportunity for studying the conditions influencing the choice of market entry strategies, and thus of the strategic aspects of internationalisation of the Greek companies in transitional economies. To a large degree the choice of the investment structure depends on the resources needed in the new venture, and on the resources that are found within the entering company. Thus, the resources that companies possess determines whether they pursuing an internal growth strategy i.e. greenfield, or an external growth strategy i.e. acquisitions and joint ventures (Penrose 1959).

The choice of entry mode between joint venture, acquisition and greenfield in the Balkans based on the following variables is examined using a multinomial logistic model, presented in chapter eight. These variables are based on a company's capabilities, since these capabilities yield competitive advantage in the marketplace. They are defined as follows.

Table 5.9 Definitions of the Variables of the Parent Greek Companies

Variables	Definition
The Resource Dimension	
LABOUR	Number of sales/employees
RESRC	The resource intensity is measured by a dummy variable, equal to 1 if the main economic activity of the company is in a resource- intensive industry and 0 otherwise.
Transaction Costs Incentives	
R&D	Technological intensity is proxied by the percentage ratio of R&D expenditures over sales.
ADVERT	Advertising intensity is proxied by the ratio of advertising expenditures/sales (of the Greek parent company in Greece), and attempts to control for possible sales promotion effects on the ownership choice of Greek companies in the Balkans
Ownership Advantages- Financial Asset Advantages	
SIZE	The size of the company is measured by the affiliate's capital (measured in USD) in the year of the investment.
INV	Capital intensity is proxied by the ratio of total assets/ sales.[12]
PRF	The proxy for profitability is the operating profit margin over the year before to investment in the Balkans.[13]
GROWTH RATE	Percentage change of sales in the year of the investment over the previous year, and is used as a proxy for growth.
Ownership Advantages- Advantages of Common Governance	
GEOGR	Number of different geographical markets in which the Greek parent company is active

Table 5.10 Expected Coefficients

Variables	Joint Ventures	Wholly Owned	Hypotheses
The Resource Dimension			
LABOUR	-	+	H15
RESRC	+	-	H16
Transaction Costs Incentives			
R&D	-	+	H17
ADVERT	-	+	H18
Ownership Advantages- Financial Asset Advantages			
SIZE	-	+	H19
INV	+	-	H20
PRF	-	+	H21
GROWTH RATE	-	+	H22
Ownership Advantages- Advantages of Common Governance			
GEOGR	-	+	H23

5.4.3 Analysis of the Descriptive Statistics

As we can see from table 5.11, companies with larger affiliates in terms of their capital invested, higher growth of sales, higher labour, advertising and capital intensity, are in

[12] **Capital Intensity Ratio Definition** (INV variable): A company's total assets divided by its sales, or the amount needed to generate a € in sales. This ratio of total assets to sales is called the **capital intensity ratio**. It tells us the assets needed to generate €1 in sales; so the higher the ratio, the more capital intensive is the company (Ross et al. 1995: 90). The capital intensity ratio (total assets/ sales) should not be confused with the total asset turnover, which is a company's sales divided by its total assets (Ross et al. 1995:62).

[13] The reason for choosing the operating profit margin instead of the net profit margin is to control for differences in tax liabilities among the listed and non- listed companies in the Greek stock market

pace with our initial expectations as these were presented in the hypotheses statements. For the remaining four variables (the resource and technological intensity, international business experience and profitability), the results of the descriptive statistics are not entirely in line with our initial expectations. Indeed, the resource and technological intensity is a characteristic of companies both in the wholly owned and joint venture category. Last but not least, the internationally experienced and profitable Greek companies seem to prefer wholly owned affiliates and join ventures in equal terms.

Looking at the descriptive statistics in table 5.11, the Greek companies that choose acquisitions as mode of entry seem to have invested the highest amount of capital for their Balkan affiliates ($31,5 million), compared to joint ventures and greenfield investors. Joint venture companies are more capital intensive (5.6), suggesting that capital intensity may be a factor leading to sharing ownership. Greenfields and acquisitions are less capital intensive, thus having less capital requirements, than the companies that choose joint venture as their entry mode to the Balkan markets. Regarding the variable measuring the profitability of the Greek parent company, acquisitions seem to have the lowest profit margin (11.4%), while joint ventures and greenfields demonstrate a higher profit margin during the year before the investment in the Balkans. The average growth rate of sales over the year before the investment in the Balkans is higher for acquisitions (15.3%), compared to greenfields and joint ventures. The results for the R&D variable demonstrate that joint ventures and acquisitions are committing the same share of their sales revenues for R&D expenses (0.004), followed by greenfields. Acquisitions and joint ventures are more resource intensive companies (0.8) compared to greenfields (0.7). Acquisitions have a more labour intensive production (€219,585) as it is demonstrated by the ratio of sales over employees, compared to greenfields and joint ventures.

For acquisitions (0.007 of sales revenues), sales- promotion expenditures are more important than joint ventures and greenfields as it is demonstrated from the ratio of sales expenditures to sales revenues. Finally, companies under the acquisition category seem to have a higher geographic diversification of their exports (9.6) of their international business activities than the joint ventures and greenfield investors.

Table 5.11 Descriptive statistics of ownership advantages

Variable	All Companies		Acquisition n= 60		Greenfield n= 31		Joint Venture n= 31	
	M	S.D	M	S.D	M	S.D	M	S.D
SIZE (affiliate's capital in million $)	19.6	67.3	31.5	94.0	5.9	6.0	10,1	16.5
INV (total assets/ turnover)	4.2	5.4	4.0	5.6	3.1	3.2	5.6	6.4
PRF (% change in operating profit margin)	12.9	10.3	11.4	9.8	14.4	9.5	14.4	11.9
GROWTH (% change in turnover)	13.3	12.6	15.3	13.1	11.8	12.4	11.0	11.4
R&D (RD expenditures/ turnover)	0.003	0.01	0.004	0.01	0.0002	0.001	0.004	0.01
RESRC (1= resource intensity, 0= otherwise)	0.8	0.4	0.8	0.4	0.7	0.5	0.8	0.4
LABOUR (sales/employment)	190,739	282,363	219,585	356,797	144,753	98,770	180,891	239,797
ADVERT (advertising expenditures/ turnover)	0.006	0.008	0.007	0.01	0.005	0.003	0.005	0.003
GEOGR (number of export markets)	8.2	6.9	9.6	7.1	5.0	6.3	8.7	6.5

5.5 Variables Describing Company Adaptation in the Balkans

5.5.1 The Conceptual Framework

A problem that we faced when looking at Greek companies in the Balkans, is the doubtful quality of the evidence. One aspect of this problem is that any funds directed towards restructuring, are likely to be suspect (since companies may choose to provide inaccurate data) or at the very least misleading (due to inflationary pressures and dramatic changes in exchange rates). The empirical literature on company behaviour during transition utilises a wide array of restructuring measures, based either on accounting or qualitative data (Djankov and Pohl. 1998, Djankov 1999). Because quantitative data can be misleading in the conditions of transition, as we have explained, objective measures acquire an unusual importance as a source of information as to what is really happening inside the Balkan subsidiaries. Our research provides qualitative, objective measures in chapter eight, so that it will become possible to discover patterns of adjustment on behalf of the Greek subsidiaries. Qualitative measures enable us to build a picture of the relations between different actors in and around the companies during their restructuring and adjustment to the local economies. This is crucial if we are to understand the various incentives that companies face (Yin 1994).

We have avoided quantitative measures such as the percentage of money invested in each aspect of the company or increases in labour productivity in order to demonstrate the extent of resource commitment for two reasons. First in the pilot questionnaire, the companies avoid indicating the necessary financial information, and second this measure (labour productivity) may be misleading since substantial improvements in labour productivity might not arise from a proactive strategy (Ericson 1998). Instead, labour productivity growth may simply account for a low initial level of efficiency, i.e. for the elimination of waste (Djankov 1998).

Therefore, we focus on the level of resource commitment on behalf of the Greek companies, thus using the term *adaptation,* rather than *restructuring,* which we believe is more appropriate and can be *measured.* Restructuring primarily is a problem faced by joint ventures and acquisitions, not by greenfields. Therefore, we used measures that we believe are necessary for successful adjustment and operation in transition economies.

In the light of the above discussion, Djankov (1998) defines restructuring as the *adaptation process* that enables organisations to reach commercial viability. For the purpose of our research, and since in our sample we have included greenfield investments we use a different term and a new approach, namely *organisational adaptation* aimed to capture the resource commitments both for companies with local partners, i.e. acquisitions and joint ventures as well as greenfield investments. In particular, the resource commitment view provides insights in the analysis of the Greek subsidiaries' development in understanding and evaluating the business environment in the Balkans.

We consider this evolutionary perspective to assess the adjustment strategies of the three ownership strategies since the growth and prosperity of a company depends on its adaptation to the local environment, irrespective of its ownership structure (Kogut and Zander 1993, 1996, Kogut 1996, Murrell 1992). For this purpose, we define organisational adaptation as resource commitments in organisation and operations towards success in a volatile and changing market environment. The resource- based model is relevant to companies which intend to improve their competitiveness by taking into considerations the factors that may enhance their competitiveness in risky and turbulent business environments like the Balkan markets.

The reason that motivates this approach is that restructuring primarily is a problem faced by joint ventures and acquisitions, not by greenfields, which they have to adapt to the local environments, providing the necessary resources such as marketing to promote their products in a market that they might not have previous knowledge of. Therefore, we used measures that we believe are necessary for successful adjustment and operation in transition economies.

In slowly transforming economies, the relative importance of the main forces driving a company's adjustment towards the principles of a command economy can be different. Their effects can be less pronounced and deserve special treatment. In this respect, the measurement of adjustment plays an important role. Changes in performance outcomes may be hardly visible yet as the market has not stabilise. In this case, it is necessary to look at the variety of adjusting activities undertaken by the companies. Together with the analysis of performance indicators, this could help to create a more objective picture of the adjusting process in a region, which is still in a fragile economic process.

Here the term *adaptation* is used to refer to actions taken to change the structure of the company along four dimensions: internal organisation, employment, output and investment. Using variables such as adjustment of employment, change of product mix etc., chapter eight takes special interest in the impact of different forms of ownership corporate strategy in the Balkans. An important question we address is the issue of whether restructuring efforts and related investments should be distributed equally across the organisation or whether certain parts of the organisation require special attention.[14] Our approach was influence by the studies of Nitsch et al. (1996) and Woodcock et al. (1994).

Organisational adaptation to changes in the environment is one of the primary concerns of strategic management (Fiol and Lyles 1985). Scholars have suggested that different configurations of strategy and structure may be appropriate for different states (Ansoff

[14] Various studies have focused on single or multiple organisational functions as deserving most attention in companies in transition countries, among them marketing (Albach 1994, Filatotchev et al. 1996), production (Albach 1994) and human resources (Filatochev et al. 1996).

and Sullivan 1993).[15] Closely linked to this literature is the strategic adaptation literature. Strategic adaptation literature states that companies should cope with environmental change, by adapting the organisational strategy and structure to the new conditions (Jennings and Seaman 1994, Sharfman and Dean 1997, Chackravarthy 1982).[16] They stipulate that when environmental conditions change, the organisation should adapt its strategy and structure to the changed context, according to some prescribed rules and logic, displaying a high level of organisational adaptability. However, these theories have been developed and tested mainly in western business environments (Eisenhardt and Zbaracki 1992). Therefore may not be applicable in transitional economies.

As we have explained a limitation of the organisational and strategic adaptation theories is that they have been developed and tested mainly in Western business environments. Economies in transition may pose very different challenges to managers and the assumptions behind these theories may not hold anymore. It may therefore be appropriate to study the strategic decision making process, taking into consideration more perspectives on strategic decision-making than only the rational normative. In this way, it may be possible to better understand and predict the strategic decisions Greek companies take and their consequences for the success of adaptation. We define strategic decisions as commitments of relatively large amounts of resources, which have considerable effects on the long- term performance of the company (Fredrickson 1985, Schwenk 1988). This requires fundamental changes for companies in their way of interacting with the environment, the kinds of products they produce, and their organisation. Therefore, the restructuring and the survival of the companies, is different due to their adaptive abilities to change. For acquisitions and joint ventures, how far away they have moved from their former business practices determined their position, while for greenfield depended on how they respond to the new market structures.

---

[15] These studies have provided support for the basic fit paradigm, which portends that organisations need to align strategy and structure (Naman and Slevin 1993, Miller 1987), strategy and environment (Tan and Litschert 1994, Kim and Yin 1998) and structure and environment (Miles et al. 1978) to achieve optimal performance.
[16] Selecting a strategy requires that management understands internal strengths and weaknesses and evaluates opportunities and constraints of the environment (Andrews 1980, Chandler 1962, Child 1972).

From this review, we choose four complementary measures of *adaptation:* (i) internal organisation, which involves behavioural modifications and is associated with issues of corporate governance and internal organisation, (ii) product market, (iii) labour market, and (iv) investments. The variables included in the above four measures are dummy variables ranging from 1; no resource commitment, 2; low resource commitment, 3; high resource commitment; 4 very high resource commitment and they are listed according to their relation with the above four measures, in table 5.12. These variables are defined in the following paragraphs. Our measures of restructuring reflect both defensive[17] and strategic restructuring[18], an important distinction in the transition economics literature (Ernst et al. 1995, Meyer 1998). Similar measures were used in Carlin et al. (1995: 433), Charap et al. (1993) and Zemplinerova et al. (1995: 7).

a) Organisation:

1. Providing independence (autonomy) to the subsidiary: 4- point scale ranging from 'no independence has been provided to the subsidiary' to 'independence has been provided to the subsidiary'. The costs of managing across borders exceed those of a national company. Insufficient or ineffective control over the subsidiary can limit the parent company's ability to co-ordinate its activities, to efficiently utilise its resources and to effectively implement its strategy. In turn, exercising control over some or all of

[17] Defensive restructuring is forced upon companies as a consequence of the decline in the demand for their products, market liberalisation and the imposition of harder budget constraints. In this respect, it is rather an adjustment activity than restructuring. Defensive restructuring includes labour shedding, cutting of real wages, closing unprofitable product lines, and some training of the old management team. It can be expected from companies, regardless of their ownership structure (Carlin and Aghion 1996) even if their goals and their management's basic strategic orientation has not undergone a significant change.

[18] Strategic restructuring measures aim at a long- run improvement of the viability and performance of the company in a competitive environment. It takes place when a company develops and implements a long-term business strategy in response to a profound necessity or opportunity. They are the consequence of a radical change in goal and strategic outlook of the companies towards value maximisation and, respectively, market orientation. They are typically accompanied by investment in new equipment, development of new products and new markets, increasing attention to product quality, structural changes in labour force, improvement of the organisational structure, and management turnover. Strategic restructuring involves designing and implementing new business plans, which often requires new management expertise and investment in new technologies. Strategic restructuring of the company should eventually result in its successful adjustment to a new market environment and an improved performance. While in the long- run this relationship is not in doubt, in the short- run it is not so obvious, in particular for slow transition economies like the Balkans. Strategic restructuring of companies will in due course show up in improvement of performance indicators if it is not confined to exceptional cases but proceeds on a broad front thus bringing about systemic changes favourable to the working of market forces (Carlin et al. 1995, Carlin and Aghion 1996, Djankov and Pohl 1998).

the activities of a subsidiary helps protect the company from premature exposure of its strategy, technological core or other proprietary components to outside groups. We want to examine whether or not Greek investors closely monitoring their operations.

b) Product Markets:

2. Establish new production facilities: 4-point scale ranging from 'production facilities are essentially the same as in the first year' to ' new production facilities are introduced after the first year'. We want to examine whether the Greek investors introduced new production facilities to their subsidiaries, and to the extent, Greek investors replaced the old production facilities in order to meet the new demands of the market.

3. Buy new equipment: 4-point scale ranging from 'production equipment is essentially the same as in the first year' to ' new production equipment introduced after the first year'. We want to examine whether the Greek investors brought new production equipment into their subsidiaries and/ or to what extent they replace the production equipment of their local partners.

4. Upgrade existing products: 4-point scale ranging from 'existing products are the same as in the first year' to 'radical improvement in product quality of existing products after the first year'. We want to examine whether the Greek investors focus on upgrading the existing products or not, as a response to the changing market needs.

5. Develop new products: 4-point scale ranging from ' products are essentially the same as in the first year' to ' all products that introduced after the first year are new'. We want to examine whether Greek investors introduce new products in the market place as a reaction to the changing needs of the market.

6. Export products to foreign markets: 4-point scale ranging from 'most products are exported to old markets' to 'most products are exported to new markets'. Access to markets is generally a crucial factor due to loss of former markets in the CEE. The collapse of previous trading markets resulted in disastrous consequences for many companies in the region. They were not prepared for changing their market orientation toward developed industrial countries. Any measures taken to help companies to get access to new markets were crucial for survival. We want to examine whether investors were interested in getting orders from buyers from Western Europe and reach new export markets.

c) Labour:

7. Maintaining excess employment: 4-point scale ranging from 'lay offs have been made' to 'no lay offs have been made'. Since over- employment was endemic in planned economies, company adjustment toward market behaviour involves labour shedding. Managers react to the introduction of market forces and the hardening of their budget constraints by cutting costs. One indicator of this is labour shedding. We look at the extent to which companies in the sample identify the existence of labour hoarding and the changes in employment that are reported.

d) Investments:

8. Capital investment programme: 4-point scale ranging from 'no capital investments have been made' to 'capital investments have been made'. Due to general shortage of capital in most of the domestic companies, these companies need financial inflow for survival. The incoming capital is needed for restructuring the financial sources of companies. Capital is also needed by owners to get rid of loans and use the capital for financing operations. Because of shrinking markets, local companies have significantly reduced financial reserves, thus making the resource commitments of the Greek companies very appealing and very much necessary. Therefore, we want to examine the extent of capital commitments on behalf of the Greek companies.

9. Invest in establishing wholesale network: 4-point scale ranging from 'the wholesale network is essentially the same as in the first year' to ' new investments to the wholesale network have been made after the first year'. Assuming a company produces a marketable product, but has no adequate distribution network, distribution improvements will increase utilisation of the existing productive capacity. Greenfield investors have an urgent need to invest in marketing skills if they want to successfully adapt to the needs of the market. No market networking and no previous experience of the local markets make this strategic commitment quite necessary. Investments in distribution networks may be critical for the performance of all the companies. For service companies this means to establish new branches or offices.

10. Training: 4-point scale ranging from to 'no training provided to the employees' to 'new training provided to the employees'. Training employees in new business practices and production methods is of equal importance. This transfer is necessary because management skills in central plan system were fundamentally different than the management skills in a market economy. Training is very important at the managerial levels, because many managers were not familiar with the workings of a market- based economy. This is one of the major management challenges for companies in planned economies in transition. Therefore, we want to examine the extent to which Greek companies train their employees in the Balkan subsidiaries. Training programs are important for achieving knowledge transmission but also for facilitating behaviour change.

11. New Technology: 4-point scale ranging from to 'technology employed is essentially the same' to 'new technology is introduced and employed'. A characteristic of the region is the technological backwardness of the Balkan companies. Therefore, we want to examine the extent to which Greek companies employed new technology in their Balkan subsidiaries to improve their technological and operational competencies.

Previous research has shown that the investment intensity determines a significant portion of the performance variance in transition economies (Uhlenbruck 1997). An important remaining question is whether restructuring efforts and related investments of the Greek subsidiaries in the Balkans will be distributed equally across the organisation or whether certain parts, i.e. training and technology, require special attention.[19]

---

[19] Various studies have focused on single or multiple organisational functions as deserving most attention in companies in transition countries, among them marketing (Albach 1994, Filatotchev et al. 1996), production (Albach 1994) and human resources (Filatochev et al. 1996).

5.5.2 Analysis of the Descriptive Statistics

A first look at the descriptive statistics in table 5.12, demonstrates the higher level of resource commitments on behalf of the companies that invested in acquiring domestic companies contrary to the level of resource commitments on behalf of the companies that invested in joint ventures with Balkan partners. On the average, acquired companies have committed more resources than the joint ventures in the product market category (2.62 vs. 2.56) and in related investments in capital, technology, distribution and training. Furthermore, they committed more resources than joint ventures in maintaining excess employment levels and fewer resources in maintaining control over their foreign subsidiary.

Table 5.12 Descriptive statistics Adjustment measures taken by companies according to entry mode

	Acquisition		Joint Venture		Greenfield	
Internal organisation	M	S.D	M	S.D	M	S.D
Providing independence to the subsidiary	2.40	0.49	2.58	0.50	2.35	0.48
Product market						
Establish new production facilities	2.56	0.49	2.38	0.49	2.54	0.50
Buy new equipment	2.60	0.49	2.54	0.50	2.41	0.50
Upgrade existing products	2.56	0.49	2.74	0.44	2.80	0.40
Export to new markets	2.71	0.45	2.51	0.50	1.87	0.92
Develop new products	2.65	0.48	2.61	0.49	2.64	0.48
Labour markets						
Maintaining excess employment	2.55	0.56	2.48	0.50	2.48	0.50
Investment						
Capital investment programme	2.58	0.49	2.35	0.48	2.35	0.48
Invest in establishing distribution network	2.65	0.48	2.64	0.48	2.64	0.48
Training	2.65	0.48	2.64	0.48	2.64	0.48
New Technology	2.65	0.48	2.58	0.50	2.61	0.49

Dummy variables ranging from 1; no resource commitment, 2; low resource commitment, 3; high resource commitment; 4 very high resource commitment

A first look at the descriptive statistics for the greenfields, we can see that they have committed less- resources than joint ventures and acquisition, for maintaining control over their subsidiaries. Greenfields have committed the same amount of resources with joint ventures for maintaining the excess labour force, but less than the amount of resources that acquired companies did. Regarding the product market category, greenfields have committed less- resources on the average (2.45) than acquisitions and joint ventures. Regarding the investment category, greenfields have invested slightly more resources than joint ventures but less that acquired companies.

Joint ventures have a higher costs associated with control (internal organisation variable) due to co-ordination problems between parent companies, and because of the risk of unintended knowledge leakage. Both acquisitions and joint ventures have high control costs compared to greenfield. Acquisitions must integrate two different sets of organisational cultures, management philosophies, and institutionalised procedures. Joint ventures have to manage the complexities of a three- way interdependency among two parents and a subsidiary.

5.6 Examining the Performance of the Greek Affiliates in the Balkans

Despite the increased importance of transition markets, studies analysing the overall business performance of Western companies in these markets have been almost non-existent.[20] The results of the existing studies indicate that the performance has in all studies been perhaps surprisingly good, taking into account the turbulent environment in most of the countries. It is noteworthy that performance has not been the major focus of these studies and unfortunately there has not been any focus on the contributing factors to performance. For that purpose, in our research, we analyse the direct relation of profitability to the entry mode.

In the study of and Woodcock et al. (1994) and Nitsch et al. (1996), their hierarchical propositions regarding the relationship between the choice of entry mode and performance were based on the existing literature, thus, in our analysis we based on the above-mentioned study, therefore we are develop a similar hierarchical set of propositions to examine the operating profitability of the Greek companies. Nitsch et al. (1996) and Woodcock et al. (1994) proposed that greenfield will perform better that joint ventures and acquisitions, and joint ventures will perform better than acquisitions.

[20] As an example of survey studies where performance-related questions have been discussed in companies in transition, the surveys reported in the studies by Hirvensalo (1993), Benito and Welch (1994), Shaukat (1996, 1997) and Shama (1995) can be mentioned.

Revenue performance can reflect the advantages of companies' reflection and adaptation to the new market environment. In inflationary periods, data on profitability are highly distorted and are a poor guide as to the viability of the companies. However, even when data does not suffer from an inflationary bias it should be regarded as suspect.[21] In order to avoid any possible bias on profitability, we asked the managers to provide subjective answers. Although they did not provide the actual financial figures, a dichotomous variable –*profit* or *loss*- was employed to capture differences in the profitability of Greek companies in the region.[22] This financial performance measurement, although limited, represents the only information investors are willing to provide given their very private nature.[23] The measure has the virtue of being comparable across host countries and companies, since respondents were all from Greece, and were at similar levels in the their

[21] Managers of Greek subsidiaries in the Balkans frequently provided false data in an effort to reduce tax-liabilities since tax- collection systems in the Balkans were not fully effective. They are also sensitive to Balkan cross- country differences in accounting methods, making comparability much more difficult. Furthermore, we must recognise the significant downward pressure that the early stages of transition put on revenues.

[22] The most obvious indicator of performance is profitability (Frydman et al. 1997, Boubakri et al. 1997, Brada 1998, Claessens 1997 et al., Pohl et al. 1997). Pohl et al. 1997 characterise restructuring as a complex and continual process to maintain profitability in the face of a changing economic environment, technological progress and competition from other companies. By this definition, restructuring is closely related to a company's flexibility in adapting its business strategies to new challenges. Researchers argue that profit is a main objective of business organisations and therefore profit can be regarded as a primary indicator of effective performance. Profitability has been often used as a proxy for restructuring: a company that attains or maintains profitability is implied to have taken the necessary steps to restructure (Djankov and Hoekman 1997:2). Profit represents the difference between the revenues with the costs of producing them. This necessitates a combination of entrepreneurial creativity (making and selling the product) with discipline (keeping the cost of production down). There is a tendency among analysts of the behaviour of transition companies to regard profitability as an indication of the extent to which a company is adjusting towards competitive market behaviour; loss- makers tend to be thought of as not having adjusted sufficiently (Pinto et al. 1993).

[23] We used subjective performance measures for three reasons. First, companies tend to be unwilling to supply objective measures for specific countries entered, but are more willing to provide subjective performance measures (Woodcock et al. 1994). Second, because our sample is cross national, reconciling cross national differences in accounting practices, variations in exchange rates and financial reporting make cross national comparisons of quantitative financial performance very difficult. Last, in several previous studies (Geringer and Hebert 1991) researchers found that objective performance measures correlate well with subjective performance measures. Thus, by using subjective performance measures little information is lost.

organisations.[24] Last but not least, by examining the companies' average operating profitability over time, we can measure the extent of restructuring- adjustment as well.[25] In the earlier phase of *defensive* restructuring, focused on labour shedding and adjustment in output of the initial product mix, employment and sales were pertinent indicators. Profitability indicators became more appropriate during or after *strategic* restructuring, when new accounting systems corresponding to international standards were adopted, the organisational structure and managerial personnel were changed, investment in product and process innovation began to bear fruit, and the effects of greater domestic and foreign competition were felt. Since our variables are orientated towards the effects of *strategic* restructuring, thus we believe that our decision to use profitability measures is justified to this extent (Djankov and Murrell 2000). In addition, FDI would normally be undertaken to secure profits. Therefore, *profits* are the *reward* for incurring greater risks in a foreign country.

We further examine if a statistically significant relationship exists between entry mode and performance in each subset of the data. The Pearson Chi- squared is often used with categorical variables, employing a frequency table to test the differences between predicted and observed occurrences. From a cross tabulation analysis between pairs of modes, the Pearson Chi- squared was used to test any significance of the proportion of profitable to unprofitable companies for paired modes of entry, i.e. acquisitions vs. greenfield, greenfield vs. joint ventures, joint ventures vs. acquisitions.

When investigating the relationship between performance and entry mode, one must consider the effects of entry age. The internationalisation literature has shown that entry into a new international market requires a learning period over which entering companies established themselves (Cardozo et al.1989, Forsgren 1989, Johanson and Vahlne 1977,

---

[24] The use of subjective, perceptual measures of performance is well supported in the literature, and has been shown to be highly correlated with objective, accounting- based measures (Geringer and Hebert 1991). The use of a single measure to operationalise a multi- dimensional construct is justified.

[25] Changes in operating profitability reflect a large number of restructuring measures. Labour rationalisation, adjustment of input uses to reflect new relative prices, the movement of resources toward higher productivity units, product quality, higher sales revenue, utilisation of better production processes and equipment etc (Claessens et al. 1997). In measuring these changes, we use operating profit margins rather than net profitability. The difference is in accounting for interest and other financial charges and depreciation. Given the often- arbitrary allocation of liabilities, the inclusion of these variables could introduce unnecessary noise in measuring company restructuring (Djankov and Pohl 1998: 80).

Johanson and Wiedersheim Paul 1975). During this start- up period, performance is depressed because a new entrant is trying to establish market penetration and achieve economies of scale and scope. During this period of establishment, financial performance may be poor and unstable. For instance, new entrants require time to adjust to new markets, new organisational processes and systems, or new competitive factors in the new market mentioned above. Because of the tendency for new subsidiaries to take some time before their performance stabilises, this study follows Woodcock et al. (1994) in analysing only those subsidiaries which are at least two years old at the time of data collection. Thus in our sample we have included only Greek companies that have made an investment in the Balkans no later than 1999.

In the last section of chapter ten we will examine causality of performance. We are interested in the coefficients β's for the different independent variables. Again, we use the same 11 variables that we have defined and analysed in section 5.5.1. We run a simple regression of the following form: *Performance* $= a + b X$, where X is a vector including measures of restructuring. For the estimation of the dependent variable *Profit* a dichotomous dummy variable – *profit (1)* or *loss (0)*- was employed to capture differences in the profitability of Greek companies in the region. We report the results of 11 regressions for joint ventures, acquisitions and greenfields with one performance variable. Our intention is to examine whether and how the resources provided by the Greek companies will assist the transformation of the local affiliates and contribute, positively to performance. Our theoretical model based on Teece (1982) *that the higher the resource commitments of one particular mode of entry, the harder it is for a company to recoup its investment and to make a profit* suggests that factors modify the transactions costs related to the resources commitment in the Balkans and controlling the new organisational entity, which in turn affects mode performance. The extent to which companies commit themselves to the Balkan market is expected to have an impact on company performance. Reaching success in foreign markets usually demands continuous and committed operation in the market to build the needed distributor and customer networks, customer loyalty, etc.

5.7 Conclusions

In this chapter we provided the link between the literature, that was reviewed in chapter two, and the variables employed in our research, and we explained the approach and hypotheses for the achievement of the objectives described and analysed in chapter one.

The theoretical framework integrating the resource based theoretical approach, which examines inter- alia ownership resource requirements, and the transaction costs approach, which involves examining variables relating to internalisation control and resources costs, will be applied in order to empirically examine the strategic aspects of the internationalisation process of the Greek companies in the Balkans, i.e. the internationalisation decision itself; the entry mode strategies; company restructuring in relation to ownership resources commitments and the implications for performance in terms of profitability.

CHAPTER SIX

FDI and Greek Companies' Internationalisation Strategies in the Balkans

6.1 Introduction

Greek FDI is a quite recent phenomenon and it concerns almost exclusively the expansion of Greek companies in the Balkans, and to a lesser extent in the CEE countries. After the dramatic changes that took place in Balkans, there is increased business activity by Greek companies in these countries.

Greece was confronted in the post WWII period with an unfavourable situation not found anywhere else in Europe. The situation results from the interaction of a distant location in South-eastern Europe, away from major markets, and distorted economic relations as the northern borders of the country were, due to the post war realities, real barriers to trade with neighbouring countries. These conditions generated an overall unfavourable index of geographic location within the post- war European space, with serious implications for the economic structure and performance of the country. The isolation and distance from the European core and the EU members implied in general limited accessibility of domestic products to large foreign markets.[1]

Because of the above-mentioned conditions, the trade relations of Greece took necessarily, an inter- industry character with more advanced countries of Western Europe, with serious impact on the industrial structure of the country. Trade theory

[1] Greece lost significant markets in the 1970s, due to limited accessibility to European markets and no significant economic relations with neighbouring countries. These events explain some aspects of the Greek economic performance during the last decades. Distance and the *missing factor* in trade relations may explain why the dynamism of the economy in the 1950s- 60s was exhausted afterwards, or why the public sector in the 1970s- 80s became so popular, so large. As export- led growth was not possible due to limited accessible markets and the predominantly inter- industry structure of trade, the industrial sector

indicates that trade with neighbouring countries is more intensive and usually takes an intra- industry character, implying greater room for more industries to develop, as international specialisations are not mutually exclusive and the division of labour takes place *within* and not *between* sectors (Grimwade 1989). Therefore, the lack of trade relations with other Balkan countries pushed Greece further towards an industry type of specialisation with the technologically more advanced western European countries.

A characteristic of the post- war period in the Balkans was a strong reliance on economies of scale and scope and a strong preference to huge industrial plants and mass production. Although this reliance on large scale SOEs was a reasonable outcome of the international division of labour within the Soviet bloc, it is perhaps a historic accident that it gathered momentum at a time when the model of mass production and the Fordist-Taylorist types of industrial organisation and growth strategies were in serious crisis and openly questioned in the West.[2]

Greece has practically never followed the Fordist mode of large- scale mass production, maintaining the smaller average industrial company size in Europe. On the other hand, the Balkans experienced an industrial structure based on extremely large company sizes, even by western standards,[3] and they followed an industrialisation strategy that put a strong emphasis on the development of heavy industry. This led to a total neglect of the light, consumer orientated industry and the tertiary sector, failing to develop

---

unavoidably took an inward looking character, became more fragmented, less efficient and of course smaller, leaving to the public sector the principal responsibility to absorb the expanding labour force.

[2] While in the 1980s post- Fordist strategies of industrial restructuring and development emphasising flexibility were discussed or even implemented in the west, in the Balkans, mass production and vertical division of labour were the dominant trends contributing to the bottlenecks, the inefficiency, the failure and the eventual collapse of the system.

[3] The average industrial company size in Bulgaria was in 1990 close to 500 employees per company while 47% of the industrial companies employed more than 100 employees in 1993. In Romania the situation is similar; the average employment was found greater than 2000 employees per company (Jackson 1996). Even in Albania the average company size ranged in 1992 from 20 to 80 employees per company. For comparison, in the EU only 2.1% of the industrial companies employ more than 100 employees, while the average employment is 18 employees per company (Petrakos 1996).

specialisations and branches critical for the development of a modern economy (Petrakos and Christodoulakis 1997, 1999).

The Greek perspective in the Balkans is unique. Greece is the only country in the region, which belongs to the EU. The changes in the Balkans have made a great impact on Greece. Balkans is a region of hope, but finds itself also in turmoil. The transition of most of the Balkan countries to market economies opened up a new era of collaboration and of mutually beneficial economic relations between Greece and the Balkans. The opening of the Balkan markets does not only provides a market opportunity for the Greek companies to expand abroad either through FDI and- or exports. It also provides the opportunity that many Greek companies were looking for in the production sphere in order to be able to compete in the *new competition* as defined by Best (1990).[4]

6.2 Characteristics of the Greek Companies in the Balkans

Greek companies are well suited to doing business in the region. They are used to dealing with heavy handed and arbitrary bureaucracy. They have experience in dealing with backward banking systems and until recently, they have worked in a high inflation, high interest rate environment with a weak and depreciating currency. They know how to manipulate, manoeuvre and hedge to overcome such problems in ways their Western European and North American counterparts often do not. The problems are nonetheless difficult, even for them.

What is remarkable is that Greece used to be a host to FDI rather than an outward investing country (Rizopoulos 2001). The main vehicles of FDI are, of course, large multinationals. Whilst they still tend to dominate this process, the pattern seems to be changing. The greater flexibility afforded by globalisation and, in particular, the diversity of products and processes, now allows smaller companies to engage in FDI activity,

[4] The new global competitive environment is a result of technological advancements and fundamental organisational changes that demand new corporate structures to be able to produce quality products at low cost and adjust at a fast pace to the differentiated demands and trends of the global marketplace.

provided these companies have certain ownership advantages. Such companies do not, necessarily, require a very large size before they can expand their operations abroad and Greek multinationals tend to fall in this category. Greek SMEs may have technological, organisational, financial competitive advantages compared to the Balkan companies, but disadvantages compared to other Greek companies in their domestic market. FDI in the Balkan markets enables these companies to take advantage of their ownership specific assets, while mobilising entry barriers for latter entrants. Furthermore, the presence of strategic western investors familiar with the region is limited. The local assets are small to medium size and it is too costly and inefficient for the Western investors to invest in the Balkans. Greek investors on the contrary are more able to respond in a speedy manner to a business opportunity due to their familiarity with the markets.

A characteristic of companies expanding in the Balkans is that they have significant proprietary rights in technology and patents, resulting from their R&D effort. Whilst some of these projects are still at the initial stage, they represent commitments, which will materialise in the next few years.[5] There are a number of companies, such as Intracom, OTE, and Delta, with considerable proprietary rights in technology and marketing, which on the basis of the earlier theoretical discussion of the underpinnings of FDI, have made them expanding their operations in the Balkans. For others, such as the Vardinoyannis group, the desire to invest in the Balkans reflects the complementarities of their operations in Greece but also the degree of diversification of their operations. This corresponds with the earlier discussion, regarding the changing nature of multinationals on account of the greater flexibility and diversity of products and processes.

[5] The list is dominated by the purchase by OTE of Serbia Telecom. The Mytilinaios investment is also part of a large strategic alliance with the Yugoslav state-controlled company Trepca, as well as mining companies in Bulgaria, Hungary, FYROM and, recently, Albania for the utilisation of mines of lead, copper and zinc in addition to iron ores for steel production.

It would appear that in terms of the earlier theoretical discussion a number of different approaches could explain Greek outward FDI. The monopoly power hypothesis applies to a number of Greek investing companies, which tend to dominate their respective industries (Intracom, Hellenic Bottling, Petzetakis, OTE), and wish to exploit more fully company specific advantages, resulting from their technology. The Greek food and beverages companies investing in the Balkans possess Hymer type advantages, in the form of advanced technological, management and marketing techniques and location type advantages, emanating from the strategic geographical positioning of Greece and differences in the prices of factors of production.

The above categories of Greek companies have discovered new opportunities for expansion. First, companies facing barriers to growth in their present markets due to saturation or intense competition could move onto a new growth path. Second, Greek international companies in oligopolistic industries such as telecommunications, banking and mining, invested in accordance with their strategic positioning vis-à-vis their international competitors. Dominated companies could see new markets as an opportunity to gain competitive advantage. Companies established in Greece, the Balkans and the Western Europe were in a superior position to exploit opportunities of price discrimination, product differentiation or vertical integration. In industries with major network externalities such as banking and financial services, presence in the region is necessary for European competitiveness. Therefore, for these Greek companies the question of entry becomes a *how* and *when* rather than *whether*.

From the data at table 6.1, the large sized Greek companies[6] (34 companies) that have invested in the Balkans are subsidiaries of multinationals, owned by Greek owners (4 companies), and they are responsible for the business activities of their parent companies in Greece and in the regional Balkan markets.[7] They are assigned by their parent

[6] Companies that have invested more than US$ 10 million in their affiliates in the Balkans

[7] Examples of this category are Hellenic Bottling the Greek partner of Coca- Cola and Athens Breweries, the Greek subsidiary of the Dutch brewer Heineken.

companies the task of *penetrating* the Balkans since this is a rather small regional market and therefore of no direct interest to the parent companies. Yet, the Greek affiliates can benefit from economies of scale in distribution and production. Furthermore, the Balkan markets are characterised by high *informal* business barriers, in which Greek companies are equipped with the experience of the Greek market to operate in such *risky environments*. In addition, large sized Greek companies in the Balkans belong to companies in Greece that they have foreign capital in their financial structure (12 companies).[8] Twenty-six large companies operating in the Balkans had previously strengthened their positions through the Stock Exchange (14 companies) or through a process of mergers and acquisitions (12 companies).[9]

It should not surprise us that MNEs have chosen to enter the Balkans through their Greek partners. By doing so, they avail themselves of the cost advantages and the related cost containment expertise, which are integral to the Greek activity in the region. The small Balkan markets, with low purchasing power, and a weak infrastructure enhance the attractiveness of the Greek partner for the MNE. But even in a more stable environment, the skills residing within the Greek companies would have been attractive to MNEs striving to execute global strategies while maintaining adaptability, which is continuously threatened by the scale and range of operations that these same strategies require.

[8] Examples of this latter case are Delta and Chipita, from the French Danone the former and the US Pepsico the latter.
[9] Example of this case is Delta, a survivor of the intensely competitive food and drinks Greek sector, became one of the first Greek multinationals. Despite not having invested in manufacturing operations abroad before, it was one of the first companies to make the decision to invest in the Balkan markets.

Table 6.1 Classification of large size Greek companies (number of companies in parenthesis)

Subsidiaries of foreign multinationals (4)	Foreign participation in capital structure (12)
Food and Beverages (2) Construction Materials (1) Financial Services (1)	Food and Beverages (3) Telecommunications (2) Financial Services (3) Mining (1) Construction Material (2) Petroleum (1)

Companies in above two categories from table 6.1 possess distinct ownership advantages. These include superior technology and management techniques and local market experience established with trade links. According to their managers, these skills allow them to expand with confidence into countries with unstable political and economic environments. Through the expansion they seek either seek new market opportunities for our mature or technologically standardised products. In addition, as these managers have reported they intend to take advantage of creative local factors of production and introduce new products designed for the regional needs and incomes. These companies therefore follow either market or strategic asset seeking strategies or a combination of both strategies.

In order to realise all these investment projects, Greek companies in the region must enjoy certain ownership advantages towards the host country companies in order to be competitive. The main ownership advantages of Greek companies in the Balkans towards the host country companies are that they have substantial capital, established relations with the western markets, parent companies originating from an EU member state and management with experience in operation both in a market economy (EU) and a heavily bureaucratic Greek market. Greek investment projects will retain the above-mentioned monopolistic advantages only for a short period of time. It will only be a matter of a few years until local companies develop similar skills themselves. As for the main monopolistic advantages of Greek companies in the Balkans towards western companies these are first, knowledge of working in an unstable environment. In fact, western companies due to the economic and social instability in the countries where Greek investment projects have been established, have maintained a *wait and see* attitude.[10] The second advantage is the geographic proximity.

6.2.1 Stages of the Greek FDI in the Balkans

The Greek FDI in the Balkans is divided into three chronological periods. This phased process was not shaped and conditioned by the local market structures, as we will explain in this section.

This first period is characterised by what we would like to call *uninformed optimism*. The profitability was mostly driven by the skewed implementation of international trade rules and the link-up of Greece with the local economy networks.[11] Chronologically this period is from 1989-93.

The first period was characterised by the fast entry of many small companies, mainly subcontractors to W. European and Greek companies, aiming to make a fast profit. There is a number of small companies (24 companies) with FDI activities in the Balkans, many of which are mainly subcontracting companies. According to the managers of the above companies, perhaps the most pronounced bias was their short- term approach. They thought they could step into the Balkan markets quickly based primarily on supplies imported from the parent company in Greece, then exit, hopefully having made a quick

[10] According to the president of Northern Greece Industrial Association the invested funds in the CEE and in the Balkans since 1990 are 145 billion dollars. The funds directed only to the Balkan markets are only 13% of the total funds invested in all Eastern European economies. To reinforce the argument about the absence of big US and EU investors in the Balkans, just consider the fact that 2%-5% of the world's FDI funds is invested in the transitional markets in Europe, and specifically in the Balkans is only 0.25%-0.56%. It is now clear that there are still many investment opportunities for the Greek companies, given the absence of major US and other EU investors. Greek companies have already invested 15% of all the recorded funds in the Balkans.

[11] This situation created the impression of a *promising market*, which attracted a number of SMEs. Their efforts concentrated on basic consumer goods, usually of poor quality, and quick returns on minimal capital invested. This category of companies includes companies involved in the production of labour intensive goods, with a fragile comparative advantage in the Greek market, which simply detect opportunities for both survival and expansion in the Balkans that are sources of cheap labour.

profit on the operation. Serving foreigners paying in hard currency was the special case of such a strategy. The main limitation of this approach is that they did not consider the exit barriers as well as that their withdrawal from the joint venture could cause problems in production.[12]

Twelve Greek companies (3 food companies, 7 textile companies, and 2 furniture companies) that invested in the first period, reported that they were not interested about the local demand for their products, although this period corresponded to the Balkan's early consumer period when consumers used up a large part of their savings for a quick improvement in their standards of living. Furthermore, the same companies reported that they did not take full advantage of the investment opportunities, therefore they did not influence consumers' attitude towards their products. Instead, they were more interested to take advantage of the low cost of production and low labour costs, therefore export their products back in Greece and W. Europe than serving the domestic market. They monitor very closely the economic environment and they waited the right time to be domestically active. However, they have a presence in the domestic market but this market presence reflects mostly their efforts for accurate market information and opportunities identification. Although this strategy was a feasible solution at that time, was abandoned in 1994, since they realised that selling their products in the domestic market is the only competitive factors in the long- run. In the short run there is a real profit in selling in the West or in Greece products made in the Balkans, in the long run there is a market which although poor now will be attractive eventually.

The second period is characterised by a more active investment from Greek companies, moving from small production units serving primarily exports, to the development of bigger production units. Chronologically this period is from 1994-97. During the second

[12] The reason is that many companies after the initial investment, particularly in textile and clothing, invest substantial amount of money as well as transfer part of their production process in the Balkans, weakening their production capacity and competitive edge in Greece, leaving local competitors to take advantage of

period, a decreased consumer capacity of the market was observed. According to the opinion of the managers of sixteen Greek companies (10 food and beverages companies, 3 construction materials companies, 3 tobacco companies) investing in that period, the early entrants saw their profit margins shrink, while the local institutional framework in place started to have some tangible effects on the operation of the grey economy. The managers of eight companies (7 textile companies and 1 furniture company) that operated as subcontractors in the first period reported that they are now investing more money in production units, and they are using their established network and business contacts to promote the products and business activities of other Greek companies that now investing in the region. This is the time of the establishment of the first *business clusters*. These *business clusters* initiated a cycle or restructuring, by sharing information, business contacts, and creating direct and indirect links between them. The negative connotations of the first period of *quick profit* mentality of the Greek investors have left a deep mark in the local markets, therefore creating prejudices and problems to the operation of the existing Greek investors, to the extent that they do not take the speculative approach of their *pioneering* peers.

The strategy of Greek companies in the Balkans in the first two periods has responded to two different objectives. The first objective is to improve the price competitiveness of production, the second, to take advantage of potential domestic markets. In the early phase of liberalisation, the first objective prevailed and industrial co-operation took mainly the form of subcontracting production to small subsidiaries with lower labour costs in order to export back to Greece or other foreign markets that they previously used to serve from Greece via exports.[13] Efficiency or asset-seeking motives seem to influence Greek FDI decisions at this initial phase of their Balkan expansion. Indeed, from the 44 companies that invested in the Balkans to take advantage of the lower costs

their absence. Therefore, a withdrawal from the Balkan markets and re- establishment in Greece was not always feasible.

[13] These subcontracting agreements can be characterised as *subcontracting of quantity*, rather than *subcontracting of quality*, since their major target was to minimise further the production costs.

of production, 9 companies reported that at their first stage of investment they were subcontracting to local partners one stage of the production process, 12 at least two stages of the production process and 23 more than 3 stages of the production process.[14] Later, satisfying the local markets became a more important component of these companies' strategies in the Balkans. As a result 15 companies reported that a considerable percentage of their production in the Balkans that is subcontracted is orientated for exports back to the Greek or other markets, while 29 of the companies that used to export back to Greece or other markets, reported that they now produce in the Balkans either the full or vast majority range of their products to distribute in the domestic market. A noteworthy point is that 80 companies in our sample reported that their Balkan subsidiaries did not cause any decrease on the production output in Greece, and 15 reported that the production output in Greece has increased on the average by 25%.

The investments during the first period and to a less extent during the second period were not a part of a broader *Balkan* investment strategy. They were targeting only investment in a single country, without considering the investment opportunities in the neighbouring markets. Although, 16 companies that invested in the Balkans in the first and second stages have invested in more than one site in a country (3 food and beverage companies and 1 furniture company), or they have invested in developing a distribution system in a neighbouring country as well (3 tobacco companies, 9 food and beverage companies) reported that their decision was not a part of their strategy, rather it was a response to overcome local problems such as supply of raw materials, and poor labour

[14] Low factor costs attracted companies from Greece that exploit the cost differential through outward processing. The relocation of production has been important in a number of industries including textiles and furniture. It gained in relative importance in the mid 1990's as cost-seeking investors were under less time-pressure than market-seekers. However, many cost-orientated investors were deterred by low productivity, lack of telecommunication and transportation infrastructure, and bureaucracy. Outward processing describes the situation in which Greek companies supplied their small affiliate subcontractors in the Balkans with materials, parts or components to be processed or assembled, and then re-imported into the Greek or EU afterwards. This enables the Greek companies to take advantage of lower wages and to reduce production costs. As it did not imply substantial amounts of investment, this form of co-operation gave the Greek companies flexibility to adjust to a changing economic environment.

force. In addition, they have admitted that by not investing in a production unit in neighbouring countries, the experience that they have accumulated from their present operations could not be used in enhancing their competitive position in the region.

In the third period the *rationalisation of the internationalisation process* can be observed. There are large investing companies with long- term investment projects. Chronologically this period starts from the second half of 1997 and brings us to the present. Managers of companies (10 financial service companies, 2 petroleum companies, 2 pharmaceutical companies, 3 telecommunication companies, 2 tobacco companies, 13 food and beverages) that invested in the third period expressed the opinion that one of the major objective was to establish a market presence at any cost, and not to increase their sales and profits. According to the opinion of their managers were building upon their reputations, experience and confidence to produce a competitive advantage for doing business in the Balkans. Their strategy was to be based upon the benefits of an experience curve over a sustained period, rather than shorter - term, opportunistic approach. Shaping a future market according to their standards is the primary consideration. As the market evolves, their companies could pursue the strategies for sales and profit maximisation. Now the companies have long- term investment plans and the number of companies that aim in a short-term profit has substantially declined. The process of the Balkan experience of the Greek companies in these three stages can be summarised as a process from uninformed optimism to informed pessimism, and from total despair to informed realism.

6.3 A Qualitative Analysis of Investment Motivations in the Balkans

6.3.1 Analysis of the Market and Cost Factor Motivations in Individual Balkan Countries

To what extent do the existing theories explain investment in the Balkans where markets opened up almost overnight, providing unpredicted opportunities for which competitive pressures required rapid market entry though FDI?[15] In assessing the prospects for FDI, it is important to consider the motivations of the Greek investors. A number of studies in transition economies confirm that although there can be four main groups of motives for FDI in transition economies they are predominately dominated by market seeking motives (OECD 1994, Paliwoda 1995, Svetlicic and Rojec 1994, EBRD 1994).[16]

It is difficult to list in order of importance the true motives for Greek investors' involvement in the Balkans, especially as the situation keeps changing. However, important differences exist among the Balkan countries. Looking at the findings from table 6.2, market control and to a lesser extent, low labour costs, seem to be dominant goals of FDI in the Balkans. Albania attracts investors seeking lower production costs given that internal market is extremely narrow for reasons of population and living standards. FYROM is attracting market orientated FDI. Even if the market size is not very different from that in Albania, the economic growth of the country makes it a more attractive market than Albania. Although the unfavourable situation in Yugoslavia impeded the flow of FDI in that country, the democratic reforms in the country are now offering great market potential. The ten companies that have invested in Yugoslavia even saw the risks posed by the break up of Yugoslavia as a comparative advantage, because they deterred foreigner competitors from joining the market. Bulgaria and

[15] A substantial body of literature exists to explain the motives for FDI (Buckley and Casson 1976, Dunning and Rugman 1985, Harrigan 1986, Beamish and Banks 1987, Casson 1987, Dunning 1988, Hennart 1988, 1991, Terpstra and Yu 1988, Rugman and Verbeke 1992, Lecraw 1992, Paliwoda 1993) ranging from pre- empting competitors, following competitors, following customers, geographical diversity, achieving economies of scale, exploiting host government provisions, to utilising outdated technology etc. These motivations are not specific to FDI into transition economies, but transition is likely to impact in various ways on the opportunities and constraints involved with FDI and so on the particular impact on FDI.

[16] A study of OECD (1994) shows that motivations have been ranked by 162 companies investing in CEE as follows: access to large domestic markets, gaining market share, low cost of production, source of raw materials. Hence, market-seeking motives have a major impact on the investors' interest in CEE. Gatling (1993) reveals a clear pattern of investors' motivations across all transition countries: to establish a market share in the host market, tap into regional market, tap into the EU market, and low cost sourcing. Hence, market- seeking motives have a major impact on the investors' interest in transition economies. Rojec and Svetlicic (1993), and Meyer (1998) have also evidencing the market- seeking motive as predominant. On the contrary, Lankes and Venebles (1996) evidenced a tendency towards low- cost seeking investments.

Romania share common investment characteristics, with market control and expansion in other regional markets be the dominant goals of FDI.

Table 6.2 Reasons for investing in the Balkans

	Albania	Bulgaria	FYROM	Romania	Yugoslavia
	Mean value	Mean value	Mean value	Mean value	Mean value
Establishing market share	2.79	3.63	3.47	3.78	3.50
Tap the regional market	2.65	2.96	2.53	2.69	2.40
Low- cost sourcing	3.26	2.63	2.37	2.72	2.50
Low- cost labour	3.68	2.70	3.00	2.62	3.00

Source: Questionnaire Survey. Concerns are ranked from 1 to 5: 1 being the least important and 5 extremely important.

When investing in a foreign country, investors should consider certain questions. These questions cover the economic and political situation of the country. If Greek investors posed these questions in early 1990s, we are sure that the replies would make them not to invest in the Balkan economies. It may come as a surprise to many, but Greek investors are as interested in psychology as they are in economics. Seventy-three managers reported during the interviews that they are interested not only about the GDP per capita, the rate on inflation, domestic interest rates, the available infrastructure, and the banking system. To start with, they were interested to know other things: are property rights protected by the State and by the courts? Is the right legislation in place? Are people industrious, corrupt, educated? Is it easy to do business there, or does the bureaucracy stifle everything?

6.3.2 Attractions and Obstacles for Investors in Market and Cost Factor Orientated Investments

Investors reported the main attractions and obstacles of their investment decisions separately for market and cost orientated investments. Table 6.3 reports these responses.

Looking at the chi- square statistics of the attractions and obstacles of the local environment between market and factor cost projects from table 6.3, the differences of their mean values are statistically significant, with the exception of the institutional framework (attractions), and partner and people (obstacles) variables.

Table 6.3 Attractions and Obstacles of Local Environments

Attractions	**Market Projects (78 companies)**		**Factor Cost Projects (44 companies)**		**X^2 Significance**
	M	S.D	M	S.D	
Market Attraction	4.26	0.68	2.34	0.48	0.000
Factor Costs	2.26	0.48	3.57	0.50	0.000
Institutional Framework	3.06	0.65	3.06	0.54	0.367
Partner and People	3.02	0.57	2.72	0.62	0.015
Absence of Competition	3.37	0.48	2.73	0.45	0.000
Obstacles					
	M	S.D	M	S.D	
Investment Risk	3.46	0.50	3.20	0.41	0.005
Institutional Framework	3.20	0.40	2.66	0.48	0.000
Partner and People	2.95	0.42	3.04	0.48	0.393
Economic Environment	3.23	0.42	2.98	0.40	0.003

Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important

Market orientated investments depends on the attraction of the local market, which is related to demand and the absence of competition, which scores second behind the market attraction motive. The extent to which Greek companies are willing to invest in an evolving economy may depend upon the extent to which the state is willing to share its monopoly.[17] Investors take advantage of the unsatisfied demands specific to their industry. The Balkans had been isolated from world markets and this gave them a *virgin* status. Factor cost related arguments were of secondary importance for market investment.

Factor cost orientated investment depends, naturally, foremost on labour costs and input costs.

The oft quoted *traditional* advantages of the region, such as low labour costs and cheap resources, though considered in the investment process, do not appear as prime motivators and are perceived instead as potential short to medium term benefits which, though attractive, do not form the main basis for long term strategic investment decisions. The reason that factor- production costs only motivated a small number of Greek market seeking investors, is the difficulty to get access to OECD markets from export platforms in emerging economies due to various market entry barriers in the OECD countries. Market barriers were import quotas such as those in the textile industry and various non- trade barriers such as quality requirements. In fact, thirteen managers from the food and beverages industry, argued that it would be extremely difficult for their companies to export their products to the EU during the first years of operation simply because the stringent EU health and quality standards could not be met by the emerging economy production facility.

Interesting to note is the importance attached to the presence of specific business partners and personal contracts in the market project category as a fourth attraction to the Balkans. This includes prior contracts to future venture partners that are based upon existing trading relationships as well as personal contacts.

The most frequently reported obstacles to investment in both categories relate to the high investment risks in the region. Risks associated with the institutional framework and the volatile economy appear to be more important in the market projects category than the factor projects category. This reflects the slow progress in establishing the institutional

[17] When domestic output declines the absolute size of the state monopoly correspondingly shrinks. Therefore, the share becomes smaller, reducing the probability of attracting large foreign investors.

framework that guarantees the functioning of a market economy. For the efficiency seeking investors, the inefficiencies of the institutional framework reflect the inefficient labour laws that significantly affect the working conditions and relationships of the labour force with the new owners.

Twenty-eight managers from companies in the market projects category indicated a variety of instances where problems had been encountered with official obstruction and protracted and complex negotiations with the authorities. This was a result of difficulties in finding the decision makers and reluctance on the part of decision makers to accept responsibility. There have also been frequent changes in the legal framework and of individuals in authority resulting timetable setbacks, as well as inconsistency in views between decision makers and frequent changes in policy and direction.

6.3.3 Analysis of the Corporate Motives for Investing in the Balkan Countries

In table 6.4, the companies in the sample were asked to rank the motives for their investment in the Balkans classified into *aggressive* and *defensive* motives. Although the motives enumerated in table 6.4 are extremely varied, the majority of the motives fall within the aggressive category. This shows that many of the companies invested in the Balkans in order to exploit either a present or an anticipated opportunity more effectively than was possible with exports or a different form of industrial co-operation.

On the five- point Likert scale used to identify the importance of the motives for investing in the Balkans, the motives in table 6.4, had a mean of greater than two (not very important), but less than four (very important). The motives that cited as being ***quite important*** are *market opportunities in the Balkans, to gain first mover advantages-establish market share, to obtain a superior profit, comparative labour costs advantage, to protect existing markets, to increase their competition in Greek and/or international market, because of full capacity at home, utilise technological knowledge.* The emphasis, which investors (122 companies in the FDI category) have placed on market opportunities, prompts the conclusion that political and business risks have not been a major obstacle to investing in the Balkans. The motives cited as being ***not very important*** are *to create an export base for countries in Western and Eastern Europe, to follow customers, comparative material cost advantage and sourcing,* and *diversification of risk.*

Table 6.4 Motives for investing in the Balkans.

Motives	Mean success rating	Standard Deviation
Aggressive		
A. Market induced		
1. Market opportunities in the Balkans	3.38	1.13
2. To create an export base for countries in W. Europe	2.99	0.73
3. To create an export base for countries in E. Europe	2.30	0.80
4. To gain first mover advantages- establish market share	3.36	0.91
B. Company induced		
1. To follow customers	2.29	0.93
2. Comparative material cost advantage	2.69	0.58
3. To obtain a superior profit	3.44	0.72
4. Comparative labour costs advantage	3.00	0.73
5. Source of raw materials	2.94	0.71
Defensive		
A. Market induced		
1. To protect existing markets	3.02	0.64
2. To increase their competitive position in Greek and/or international market	3.18	0.63
3. Because of full capacity at home	3.04	0.79
B. Company induced		
1. Diversification of risk	2.44	0.81
2. Utilise technological knowledge	3.15	0.63
Friedman's ANOVA Chi- square 323.55, Significance 0.0000		

Source: Questionnaire survey. Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.[18]

[18] In the above table, since we used several variables in ordinal scale, these variables represent related samples in mean- comparison test, i.e. the rank of one variable necessarily affects the ranks of other variables. Therefore, Friedman test, a non-parametric test comparing the distribution of several related variables, was used. Friedman's two way ANOVA test examine the null hypotheses that the scores in each topic come from the same population. Referring to the results in the above table, Friedman's test was

Among the market- induced aggressive motives, the largest single group of replies concentrates on the need to explore market opportunities in the Balkans. Companies interested in servicing foreign markets are expected to use a selective strategy and favour entry into more attractive markets. This is because their chances of obtaining higher returns are better in such markets. Therefore, the future higher profit rates, is a strong motivation factor for companies expanding into Balkans as we can see from table 6.4. The attractiveness of a market has been characterised in terms of its market potential and investment risk. Market potential has been found to be an important determinant of investment in the Balkans. Manufacturers responded to the opportunity of exploring a virtually untapped market bigger than Greece. This is because their chances of obtaining higher returns are better in such markets

Greek managers explained that although the business environment in the Balkans has improved, still many European and American companies prefer to maintain a hold position. According to the president of the Federation of Greek Foodstuffs Industries 'when the Europeans and the Americans read about investments in Albania or FYROM, they think about some people who have opened up a store there or have purchased a few trucks. As they put it eloquently: But to set up a factory? The madman to do that has yet to be found'.

Market- orientated strategy is one of the main strategies adopted by Greek companies investing in the Balkans as it was reported in table 6.4. As we can see from table 6.4, this is not only due to the market opportunities of the national markets but also because the Balkans can be used as a base from which to obtain access to neighbouring markets. The main aim of the investments is to provide access to the host countries' (market seeking investment), and sometimes also to the neighbouring countries' market (market seeking and efficiency seeking investment). The aim is to use the Balkans as the base with a core

---

highly significant for all groups of variables ($p<0.0000$). These results enable us to reject the null hypotheses and to conclude that the differences in the ranking of the variables were substantial.

strategy of backwardly integrating using the low cost countries as the value- added centre and more affluent purchasing countries as the distribution points. The low factor costs of production enable companies to produce in the Balkans in order to export to foreign markets. This strategy leads companies to produce in the Balkans in order to sell in the Balkans or other CEE and EU markets. All the market seeking investment projects initially have focused only on local markets. At the time when the national markets could absorb the supply of the Balkan affiliates, the affiliates increased their productivity and start exporting to other affiliates in the investors' international network. Balkans are regarded a production and export platform to third markets. This strategy can be related to the defensive market induced motive for investing in the Balkans, that is the limited growth potential of the Greek market.

Greek managers believe that the companies in the region, although badly hit by the disintegration of the CMEA system, still have the potential of recovering the former economic relations within the region, including the former Soviet Union states. They also offer manufacturing and labour capacities for lower product selling prices, ensuring higher profit gains for the investors. Consequently, Greek companies can enter these third markets with low price strategy combined with world standard products.

Companies implementing these strategies need not only the technological, marketing and financial capabilities, but also the will to invest in the Balkans. As we can see from table 6.4, the need to protect existing markets and to increase the competitive position in the Greek and/ or in the international markets, scores highly among the motives of the Greek investors. It was argued by the Greek managers that all Greek export companies are facing world competition in their industries, so they try to enter the Balkan market either on their own initiative to keep up with competitors, or to prevent others from entering the market. The majority of Greek investors (as this is demonstrated by the mean value of the *market opportunities in the Balkans* motive in table 6.4) are trying to find opportunities for growth in a newly- opened market where competition may be less efficient.

Markets in the Balkans are attractive for many Greek companies. According to the opinion of the Greek managers consumers in these markets had no access to many products that are readily available to consumers at similar levels of per capita income in other parts of the word. The attraction of the markets arises from the catch up demand to western levels of consumption and the expectation of sustainable economic growth. Trade liberalization unleashed a catch-up demand, especially for consumer durables for which West European markets are saturated.

Greek investors believe that the Balkans have the potential to achieve sustainable growth rates with growing markets, as the Balkan countries will eventually narrow the gap with Western Europe. This will be the result of liberalisation, stabilisation and prospective integration into the EU market. During the interviews many Greek managers express the opinion that they expect considerable long-term growth of demand, especially as the income of the middle class, their prime customers, grows faster than the average measured by GDP.

FDI to developed countries is mostly market seeking in nature. Efficiency or natural resources seeking FDI flows are usually orientated to developing countries (Brouthers et al. 1996, Narula 1994). However, from the data in tables 6.2 and 6.4 we can oppose the suggestions of the two former scholars, since in our case the highest score among the different factors motivating FDI in the Balkans is mostly market seeking.[19] Although

[19] Lankes and Venables (1996) and Lankes and Stern (1998) have noted that previous studies have shown predominance of market seeking investors in CEE countries and factor cost considerations appeared to be of less importance for the majority of investments. Results of a multinomial logistic regression analysis suggested that market seeking investors are interested in making use of first mover advantage while efficiency seeking investors postpone their projects until the risk level is acceptable to them (Lankes and Stern 1998). Results of a survey that was carried out by EBRD showed also that market seeking investments are dominating in these countries. This has also been reported in the large number of surveys

from our data analysis, market- seeking FDI is scoring high, yet cost factor motives are also important, as we can see from table 6.4.[20]

Economic theory of location suggests that substantial FDI would enter the emerging markets in search of lower costs (Ozawa 1979, 1992). The importance placed on cheap labour and resources in table 6.4 indicates FDI that would take advantage of factor cost differentials. Indeed, in table 5.3, 78 companies (64% of the companies) were classified as market orientated companies, and 44 companies (36% of the companies) were classified as resource orientated companies.

From the results in table 6.4, we can say that a production- orientated strategy is the second major type for Greek companies because the Balkans offer low cost of production. Dunning (1981) suggests that early FDI tends to be resource- orientated, at first towards raw materials, later in using cheap labour. The Balkan markets are at an early stage of this process in that they possess mainly natural assets and low cost labour with some assets such as technological expertise in selected areas. In this situation, FDI can emerge as a consequence of developmental adjustment process. The evolution of locational advantages and especially of comparative cost advantages creates the environmental conditions that favour low cost orientated FDI in the Balkans.

Efficiency seeking investors are interested in taking advantage of low production costs for increasing the efficiency of regional or international activities. They can produce either components or final products to be exported back to Greece or other countries. According to this strategy companies relocate production, which is often labour-intensive and low tech, such as textile and furniture companies, and many consumption

---

conducted among foreign companies investing in transition economies (Meyer 1998, Pye 1998, OECD 1995, Kogut 1996, Lankes and Venables 1996).

[20] Our results are very similar to the findings of an EBRD report in 2000, regarding the importance for market opportunities, labour, however, they are slightly different regarding the *access to raw materials variable*. In our data, this variable is higher (2.94%) compared to the findings (2.27%) of the EBRD

goods companies such as food and beverage companies. According to nine managers in the textile companies and four managers in furniture companies this type of strategy does not aim at obtaining access to the national market, at least not directly, and production obtained in the Balkans is then mostly exported to more developed countries of West and East Europe. By moving production processes using medium level technical skills to the Balkans, FDI facilitated the enhancement of efficiency in the local production. However, a common complain on behalf of all the Greek managers is that productivity is often low despite the workforce being well qualified. In many occasions the old production equipment and slow pace of production diminished any capital gains that resulted from low labour and resource costs. Furthermore, companies that reported labour costs as a primary reason for investment reported that they have a production process that is highly labour intensive because low productivity, and the traditional boost in wages quickly wipe out significant wage cost advantages. Although the unit labour costs have risen substantially, they are still significantly below West European, especially Greek levels.[21] In general, investors are concerned with the viability of the wage gap since projects with long time horizons are inhibited by uncertainty surrounding future labour costs. Therefore, the importance of low labour and resource costs can be considered a complementary rather a priority motive.

The purpose of the natural resources seeking investments was to use the raw materials available in the Balkans. From discussions with the managers, this kind of FDI is typically orientated to export for world markets rather than for the domestic host country market therefore reflecting the strategic objective of the Greek companies in the Balkans in the first period. However, raw materials were also used for further processing and sale in the host country, therefore reflecting the strategic objective of the Greek companies in the second and the third stage, as it was described in the previous pages.

survey for the Balkan region. The other two important investment determinants, i.e. market opportunities and labour costs, maintain their hierarchical order.

[21] Economic policy has strengthened this advantage in some countries through an effective undervaluation of exchange rates or incomes policy, such as constraints on wage increases.

The *combined character* of market seeking and resource seeking motives should be also considered from the production point of view.[22] A very critical aspect of the companies' adjustment in the Balkans is the production of low- cost products, suitable for the purchasing power of the population. Twenty Greek SMEs (10 textile companies, 6 furniture companies, 4 food and beverages companies) according to their managers possess little or no obvious competitive advantages, other than perhaps that of the first - mover advantage. Therefore, they find it difficult to survive for long in the Balkans. These companies need to utilise whatever time is still available to establish themselves in particular niche markets.[23] The focus from a production point of view according to the above managers is to produce locally by taking advantage the low cost production factors and then direct the products to the domestic market at a price suitable for the purchasing power of the consumers. By doing this, they further reported, they could erect some entry barriers to latecomers. As the Balkan countries still have very low levels of disposable income they may not be able to afford the more sophisticated products of powerful multinationals, and for this reason the above Greek companies have considered the possibility of investing there, because of the very small size of the local market, as their managers have reported. This may still provide the smaller Greek companies producing products, which however are within the reach of the locals, with the opportunity of establishing themselves.

Therefore, local facilities often allow companies to produce at lower costs, since the costs of factors of production are considerably lower in the Balkans compared to Greece.

[22] This motive was strongly emphasised in a number of surveys too (Mikelka 1996, Kosta et al 1993, Aal 1997, Csech 1997, Halpern 1997, Kovacs 1996, Legeza 1997).

23 Greece's economic presence in the Balkan's should not be over- exaggerated, since the organised presence of countries like Germany will possibly push aside some of Greece's competitive advantage such as geographic proximity. Progress in transition will bring the economic structure of the Balkan economies closer to Western European patterns. Operating in physically distant countries like the Balkans, the west European investors had to overcome the liability of being foreigners. They had to gather information, train local staff and adapt management to the local environment. Moreover, risk assessment was hampered because the investors were not accustomed to the nature of many sources of risk and because of political

Market seeking motivation is likely to become even more important as the purchasing power of the population in the Balkans will increase. As predicted by Dunning (1981, 1986), the most common destination of market seeking investment is countries less developed than Greece, namely the Balkan countries. Therefore, it cannot be 100% clear whether Greek companies are seeking to maximise their existing resources, or they seek in new markets the size on which they will build their competitive advantages.[24]

In table 6.4, Greek investors reported that first mover advantages are quite important. Forty- five Greek investors justified their decision to invest early, by saying that they expected long-term benefits from early brand recognition, fast access to distribution channels, favourable relations with local suppliers and contacts to governments. Twenty-three of the above investors reported that they were invested early in the Balkans since the entry barriers during the first years of reforms could be considered at rather low levels, compared to market economies. The inherited monopolies and oligopolies were mainly endowed with outdated or obsolete technology, while their companies (the Greek companies) were in a better position since they have modern production capital. According to the above twenty- three managers, they can enjoy special benefits because of their participation in ventures with local companies, which can build up highly undesirable competitive anomalies in a market that has traditionally been organised as a monopoly. The first mover advantages along with the financial position of their companies (Greek companies) allowed them to buy market share at rather low prices compared to standards in fully- fledged market economies. In doing so, they could implement strategies of increasing entry costs and undermine true competition. This saves the internationalising Greek companies from the time and costs involved in

influences on international transactions. Therefore, the motivation of the Greek companies to reap the advantages of first mover advantages is justified to this extent.

[24] Similar findings are supported by other scholars (Szanyi 1995 and Pye 1997), where no clear distinction was made between market and factor- cost motivated investments, and are contradicting with the findings of Konings (1996), Konings and Janssens (1996) who support the view of other surveys, that the primary reason for FDI in transition economies is the penetration of new markets.

building a market share in a new foreign environment with different customs and a different culture.

The above 45 managers suggested that they were willing to invest not for the immediate short- run profits but rather to have a competitive advantage over competitors investing on the market at a later stage. Many companies in industries with oligopolistic and monopolistic structures were among the first entrants seeking the creation of competitive advantages and the elevation of entry barriers. Indeed, the hope to benefit from first mover advantages and monopolistic position constitutes a very attractive perspective. All the managers from financial services companies, mining companies and telecommunication companies during the interviews reported that relative stable oligopolistic structures are of great importance. This particular motive seeks to expand their sales and production into the Balkan markets. The opening of the Balkans induced their investment activities, because the timing of their entry could determine the position vis-à-vis their competitors and therefore the value of their ownership advantages. The same managers further reported that they were also motivated to invest because the Balkan market structures have been highly imperfect; monopoly or near- monopoly was not uncommon, and competition laws were not yet fully enforced. In addition, the disappearance or the difficulties of local companies facilitated their market share control strategies.

Delay of entry could be costly in the Balkans, which are open to international oligopolistic competition. According to three managers from tobacco companies, and sixteen managers from food and beverage companies, by investing early in the Balkans and developing a geographic space for their products, they are pre-empting rivals as well as they are trying to develop switching costs that create barriers to late movers and establish their products as an industry standard in order to increase their probabilities of a profitable investment. According to the above nineteen managers, first mover advantages are most important in their industries where brand names dominate. Speed of entry is important in their industries, since the local industries are fast growing in the host economies, offering great profit opportunities and participation in a growing market.

We have asked the first entrants whether this euphoria about first-mover advantages is justified. All respondents to our question replied that the entry in the Balkans poses different challenges. Even so, they (the first entrants) have to overcome obstacles in the local environment, and strategic decisions on the location and partner choice, which incur considerable sunk costs. Moreover, brand names may be worth less where brand loyalty is low as consumers still experiment with new products. The managers suggested that they did not fail to realize their expected benefits, and second-movers could not easily build a larger market-share. Large unsaturated demand surfaced at the time of liberalisation, and early establishment of a market share could, through brand loyalty, contribute to a leading position in the long run and deter potential later entrants. Eleven later entrants reported that they could not benefit from local consumers' improved understanding of the market, and from first-movers' investments in 'educating' the customer base by using expensive promotional campaigns.[25] Fast followers though could learn from successes and failures of the first-movers and adapt their strategies for marketing and government relations accordingly.

Besides the market benefits that the first movers can benefit early entry provides a production benefit as well. The above 45 managers have reported that if their products are already in place, no matter how old the production equipment is, they have the advantage when it comes to upgrading or replacement of the production equipment. The reason, according to the 45 managers, is that they already know what the market wants, and most importantly how much the market can absorb therefore they can adjust their

[25] This positive spillovers has enabled many *fast second* followers to penetrate into the Balkans, that is the case of the banking and food and beverages companies.

production equipment according to the needs of the market, avoiding any excess production.

Greek companies in table 6.4 are also reported as client followers. They enter the Balkans to serve customers they have served before. These investments could also be classified as market seeking ones. Ten Greek managers explained that their investment decisions were linked to an extent to the strategies of major customers that have established local operations and wish to produce supplies or services with their industry standard or quality. Furthermore, the same ten managers reported that the client(s) provides a sufficiently large and secure demand to merit the commitment, and from that base they may expand onto the local market. This occurred because clients wanted to preserve and extend the intimate knowledge and working relationships already built in Greece. Especially in the financial service sector 12 companies or 63% of the companies in that market sector report that *as a major motive prior to FDI in the Balkans.* In industries with major network externalities, such as financial services, presence in the region was necessary to offer regional- international coverage for our customers operating abroad, according to the opinion of five managers in the financial service sector.

Interesting comments can be made for *defensive motives'* results from table 6.4. The type of investor that is interested in the Balkans is defined not only by the behaviour of dominant and dominated companies in the specific markets. Considering the high level of uncertainty in the Balkans, the industry's *leaders* are also moved by defensive motivation. The ones that are present are facing the limitations of competition in the already mature and familiar western- Greek markets, and they accept to be led by the risk that less attractive regions for investment can offer chances for higher profits. Since the demand of their products in the Greek market is saturated and the competition is increasing, the market potential of the Balkans offers an opportunity for the Greek companies to diversify their business risks, as the results in table 6.4 demonstrates.

The available literature from Dunning's OLI framework supports that threats to existing ownership advantages can be as much a driving force of internalisation as expansion based on growing advantages. Companies facing constraints to growth in the Greek market and with their present strategic configuration are pushed into exploring opportunities. Barriers to growth in the domestic market create strong factors towards restructuring, relocating and searching for new markets. Companies starting to reach growth barriers with their present strategic configuration are restructuring their present sourcing strategy therefore they invest in the Balkan markets.[26]

The employment of the more advanced Greek technology in the less developed markets of the Balkans can enhance the chances for obtaining a higher profit. Indeed the utilisation of the technological knowledge that the companies posses, has the highest score among the company induced defensive motives, as we can see from the results in table 6.4. The reason is that the Greek companies are closer to the Balkan countries as regards their technological needs, in relation to companies from other European countries. Greek technology is more accessible for Balkan countries, since they do not have to cover the very large gap between the new technologies and those that they currently use (Rizopoulos 2001).

Advantages, but also disadvantages may motivate FDI, as the results in table 6.4 shows. In this perspective according to the opinion of the Greek managers, FDI was defined as a

[26] In this case these companies cannot expect to increase their share, even if this happened, it is expected to be marginal. In high technology markets the dominant companies had the largest share of their income from deals with the government. So now that these deals become more difficult they face a problem of where to find customers, therefore moving to the Balkan markets, where the public sector is the main customer, and maintains the monopoly for the near future, since the market structures are highly imperfect, and competition laws are not yet fully enforced. In a number of cases in different markets in Greece, the dominant companies start reaching a point where we have a duopoly and there are no other opportunities for increasing their market share. Greek companies are given the opportunity to maintain some of their existing markets by applying a low price strategy by selling existing products in a profitable manner. This is the case for example in the market for diary products. Operating in *mature markets* makes internationalisation a question of survival.

strategic movement tending to exploit and preserve advantages. Increased competition in international or national markets reinforced the Greek companies to expand in the Balkans in an effort to protect their international competitiveness by taking advantage of the low cost factors of production and the demand of the domestic markets. Companies would internationalise their activities in order to obtain a cost or differentiation advantage enabling the amelioration of their competitive position.

Yet the need to protect an existing market is the least prevailing market induced defensive motive, contrary to the need to increase their competitive position both in Greek and international market, as we can see from the results in table 6.4. Twenty Greek managers (10 textile companies, 6 furniture companies, 4 food and beverages companies) reported during the interviews that their companies are given the opportunity to maintain some of their existing markets by applying a low price strategy and by selling an old product in a profitable manner in the Balkans. FDI was considered as a necessary condition, not to ameliorate profit, but just to preserve minimum profits or market shares. It was a defensive action due to weak competitive position. The above twenty managers reported that they are not interested only in exploiting the competitive advantages of their companies, but rather in augmenting and protecting them. These companies undertake FDI to improve or defend market shares by pre- empting competitors from doing likewise. They invested in the Balkans to prevent challenges from their rivals or the emergence of new competitors from within the region. Thirty companies dominated by larger competitors (4 tobacco, 21 food and beverages, 5 financial services) reported that they saw early entry in new markets as an opportunity to gain competitive advantages and increase their competitive position.

All the managers from the above fifty companies agreed that their strategic intention could be realised only through the exploitation and combinations of competitive advantages. That is access to know how from developed market and economies, raw materials and low production and labour costs available in the Balkans, and re- exporting by using the parallel distribution channels in Greece, EU and the Balkans.

Despite the importance of low cost factors of production as one of the causes of investing in the Balkan markets, making use of these factors as a reason for investment, scored lower that the market attraction motives as we can see from the data in table 6.4. Our data showed that local market of the Balkan countries is the primary motive in making FDI and low cost factors of production played a secondary role in investing in the Balkans during the transition process.[27]

From discussion with the executives of the Greek subsidiaries in the Balkans as well as from the available data in table 6.4, we can identify two major categories of investors in relation to their strategic objectives; (i) companies trying to develop, consolidate or protect their positions and market shares in specific enlarged markets, while they prepare an expansion to third markets. Food and beverages, and banks provide some good examples; (ii) companies trying to improve their competitive positions. Textile companies provide some good examples. They have in common their interests in location specific advantages in order to exploit or to acquire competitive advantages. For this reason, national market characteristics and low cost factors of production play an important role.

6.4 Comparison of Greek Investors and Non- Investors in the Balkans

The responses to the question, *why did you not invest*, in table 6.5, indicate that the primary reasons that companies did not invest in the Balkans are that these markets were outside the scope of the company's strategy for company or industry specific reasons or they prefer to invest in another foreign country. Second in importance, is the business

---

[27] Marinov and Marinova (1999) and Pye (1997) have also reported similar results – local market is the primary motive in investing to transition countries. From the above results our findings come in pace with Rizopoulos (2001) that market penetration is the primary objective in the Balkans.

risk associated with such an investment in volatile markets. Political, economic, legal uncertainties maintain their significant importance as impediments for investments in the Balkans. Costs of production were considered as an important reason for not investing, since relocation of the production unit(s) was not considered a strategic option, given the nature of the production process. This relates to the industry specific nature of the labour cost argument. Factor cost investments were inhibited by local costs being too high due to the lack of infrastructure, poor labour qualification as well as the expected future labour costs. Seventeen investors are also concerned about the viability of the wage gap. They express the concern that projects with long time horizons are inhibited by uncertainty over future labour costs and real exchange rates. It is important to note the importance that Greek companies have placed on the information about the local markets. Obtaining information on the market was difficult due to its complexity and rapidly changing patterns.

Regarding the financial constraints, Greek companies in order to finance new projects, needed access to external finance. As sixteen managers reported the reserves of the domestic partner, were negligible and they could not finance projects out of their retained earnings. Loans were difficult to obtain due to underdeveloped banking system. Local banks in the Balkans did not have the expertise to assess investment projects.[28] Another constraint arises from the lack of suitable business partners. According to a manager of a tobacco company that eventually decided not to invest, 'the management and employees of the Balkan company were expected to take on new responsibilities for which they have not been trained. Unfortunately, pools of alternative management expertise were not readily available either'.

[28] That was a main reason why Greek banks expanded in the Balkans following their biggest clients abroad. They provide the necessary know- how to facilitate loan transactions and project assessment. Among the potential external sources, bank credit was limited for several reasons. Government anti-inflationary policies restricted the growth of the money supply and kept interest rates high. Also, the banks themselves preferred to provide short-term rather than longer-term loans.

Table 6.5 Reasons for not investing in the Balkans

Factors	Mean value	Standard Deviation
Business risks are too high	3.70	0.60
Insufficient information about the local markets	3.39	0.54
No appropriate partner was found	3.27	0.59
Financial constraints	2.83	0.74
Political environment too uncertain	3.37	0.73
Lack of physical infrastructure	3.44	0.59
Legal system too ambiguous	3.34	0.69
Negotiation with local authorities too difficult	3.54	0.90
Markets can be served from facilities outside Balkans	2.85	0.79
Expected demand for goods too low	3.56	0.55
Competition too intense	2.48	0.55
Cost of production too high	2.85	0.57
Prefer to invest elsewhere	3.78	0.61
Outside the company's scope	3.90	0.77

Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.[29]

The obstacles in the partner category include the costs of restructuring local companies, and lack of suitable local partners. These arguments relate to the quality of local businesses. They are specific to the Balkan region and reflect the problems that arise when dealing with the structures of local business inherited from 40 years of socialism. Surprisingly none of the participants report competitors as an obstacle for local production. A response from twenty- seven the managers of companies that did not invest in the Balkans was that in the analysis of calculating future sales and success in the Balkan market, the main factor was not competition and market shares but whether the local customers would have enough money to buy their products, in other words whether the market was expected to grow or shrink.

[29] In the above table, since we used several variables in ordinal scale, these variables represent related samples in mean- comparison test, i.e. the rank of one variable necessarily affects the ranks of other variables. Therefore, Friedman test, a non-parametric test comparing the distribution of several related variables, was used. Friedman's two way ANOVA test examine the null hypotheses that the scores in each topic come from the same population (i.e. their ranks are not different). Referring to the results in the above table, Friedman's test was highly significant for all groups of variables ($p<0.0000$). These results enable us to reject the null hypotheses and to conclude that the differences in the ranking of the variables were substantial.

In table 6.6, we examine the perceptions of risks to Greek companies with investment activity (FDI), and no investment activity (indifferent) in the Balkans. Typical risks of developing countries such as expropriation were perceived less important for both categories of companies. Looking at the results in table 6.6, all the risks are perceived to be more important for the companies that choose not to invest in the Balkans than the companies that decided to invest. The primary consideration for the investors is the uncertainty about the economic prospects of the Balkans and for the non- investors is the inadequate commercial infrastructure, i.e. banking, and commercial circuits.[30]

Table 6.6 Perceptions of Risks to Greek Companies

Risks	Investment Activity	No Investment Activity	X^2 Significance
1. Business risks	3.26	3.70	0.000
2. Uncertainty about economic prospects	3.33	3.65	0.000
3. Risk of expropriation	2.70	2.88	0.022
4. Risk of political instability	3.20	3.37	0.380
5. Exchange rate risks	3.21	3.42	0.008
6. Inadequate physical infrastructure	3.24	3.44	0.006
7. Inadequate commercial infrastructure	3.24	3.73	0.000
8. Legal uncertainties	3.24	3.34	0.000

Levels of importance: 1=very unimportant, 5 very important.

Cross tabulation analysis using the chi- square statistic indicates that the differences are statistically significant. There are many differences between those companies that had never considered investing in the Balkans and those that had made direct investment in the region. All the risks associated with the investment environment in the Balkans, except the risks of political instability, are significantly more important for companies

[30] Over time, the legal framework has developed, usually but not always, towards consistency and market orientation. Bureaucracy related problems arise from inconsistent guidelines for decision-makers within the bureaucracy as well as from interests of the local administration and, in some cases, corruption. The legal framework has been adapted towards the rules and regulations of the EU. However, this often complicates procedures, as the administration is not trained to implement these rules smoothly.

that had no investment activity in the Balkans. In addition, those companies, which had investment experience in the Balkans, gave less importance to the exchange rate risks and to the quality of physical and commercial infrastructure as opposed to those without experience in the Balkans.

Unanimously all the managers of the companies that have not invested in the Balkans agreed that imperfect financial markets, corporate governance inefficiencies and the managerial capabilities of the Balkan managers would inhibit the implementation of forward- looking strategies therefore increasing the business risks.

Regarding the economic prospects in the Balkans, the Vice- President of Commercial Bank of Greece in Romania, is generally optimistic, despite the current difficulties. 'What people call problems can be found anywhere in the world and these are nothing more than issues to be resolved. At this point of time the Balkans' path is a one-way road and the only question is when the changes should happen, not if'.

Overall, the issues raised by the Greek non- investing companies are not perceived as factors, which would necessarily prevent investment, rather as obstacles, which impede the investment process. Very important among these obstacles are the bureaucratic and administrative issues, related to the lack of proper commercial infrastructure. As a finance director of a Greek company eloquently put it 'we attempt to create capitalism in a context where there were hardly any capitalists'. Greek investors mentioned that they received conflicting information from different ministries and government agencies. Government and domestic companies' strategies were often ill- defined and ambiguous and lacked a determined long-term strategy. Overall, economic risk is perceived to be higher and more important than political risk for businesses. The results in the above table, appears to support such a belief. In general, all the managers of the companies that did not invest in the Balkans expressed the opinion that these drawbacks, while being a potential hindrance to doing business, do not offset the profitability of entering the

Balkan market. However, they do highlight the fact that business transactions are often difficult and time-consuming under the current economic circumstances in the Balkans.

6.5 Conclusions

The start of the 1990s marked the emergence of a new form of commercial activity that had been almost unknown in Greek companies until that time. This was the period when Greek companies started to foray beyond the narrow domestic framework and essay forth into markets outside of Greece in the form of making investments abroad.

From discussion with the executives of the Greek subsidiaries in the Balkans we can identify two major categories of investors in relation to size, internationalisation of activities, strategic objectives and previous involvement in the Balkans: (i) leading international companies with a real international strategy, trying to develop, consolidate or protect their positions and market shares in some specific enlarged markets. They acknowledge the different locational problems, but they are of secondary importance concerning FDI decision in the region. Food and beverages, and banks provide some good examples; and (ii) companies, such as textile, that trying to improve their competitive positions. They have in common their interests in location specific advantages in order to exploit or to acquire. For this reason, national market characteristics play an important role.

Summarising investors' specific strategic goals from the data in table 6.4, we can identify the following reasons motivating investment in the Balkan countries; (i) *Market penetration* the creation of competitive advantages and the elevation of entry barriers; (ii) *Strengthening competitive positions in EU markets* through the exploitations of comparative advantages, i.e. access to know how, raw materials, low production costs, low labour costs and re- exporting; (iii) *To protect investor's existing markets and increase competitiveness.* Greek companies are given the opportunity to maintain some of their existing markets by applying a low price strategy (by exporting products manufactured cheaply in the Balkans) and by selling an old product (existing Greek products in the Balkans) in a profitable manner; (iv) *To prepare an expansion to third markets.* Balkans are often regarded a production and export platform to third markets.

Overall, the investment constraints raised by the Greek companies are not perceived as factors, which would necessarily prevent investment, rather as obstacles, which impede the investment process. These drawbacks, while being a potential hindrance to doing business, do not offset the profitability of entering the Balkan market. However, they do highlight the fact that business transactions are often difficult and time-consuming undertakings under the current economic circumstances in the Balkans.

CHAPTER SEVEN

An Analysis of the Internationalisation Decision Making Process of the Greek Companies in the Balkans

7.1 Introduction

Outward FDI is a recent activity of Greek companies. It is mostly directed towards the Balkan countries and forms an alternative strategy to exports. An analysis of the decision- making process of Greek companies before undertaking any type of internationalisation strategy is attempted using a multinomial logistic model[1] on company- level (ownership specific characteristics) data. In this chapter we seek to investigate the determinants of alternative expansion strategies, i.e. exports versus FDI in the Balkans, FDI vs. no involvement in the Balkans, exports vs. no involvement (classified as indifferent companies) in the Balkans, stressing the importance of company- specific characteristics and it is tested on evidence produced by Greek companies. Using a sample of Greek companies, headquartered in Greece, we aim at estimating a probability for the expansion choice made by each company based on its own specific characteristics.

Today not much is known about the way Greek companies make the decision to engage in FDI. What are the ownership specific factors that make some companies express their interest in the region through FDI, whereas others opt for an export strategy or decide not to invest at all. In this study, a model is developed that focuses on the investment decision process of the company. The model is based on the idea that the company has

[1] Discrete choice models are used in a wide variety of situations in applied econometrics. By far the model specification, which is used most often, is the multinomial logit model, which provides a convenient closed form for the underlying choice probabilities without any requirement of multivariate integration. Therefore, choice situations characterised by many alternatives can be treated in a computationally convenient manner. Many empirical studies on foreign entry mode choices used multinomial logit analysis (Agarwal and Ramaswami 1992, Contractor 1984, Erramilli 1991, Gatignon and Anderson 1988, Kim and Hwang 1992, Kogut and Singh 1988, Pitelis and Iammarino 1999).

initial interest in engaging in FDI in the Balkans. The model includes expected costs and benefits, factors of uncertainty, the option to wait with the investment or the possibility to invest in an alternative investment. Empirically the model is tested by means of a survey of 230 companies, covers the period 1989- 1999 and conducted in Greece.

Admittedly, the term *internationalisation strategy* has been conspicuously absent from the literature on the evolving Greek business presence in Balkans. However, neither have Greek scholars utilised the vocabulary and the tools of *internationalisation strategy* analysis to explain Greek business activity in the region.[2] To reinforce our argument we provide a simple example. What explains the formation of a Greek FDI in the region so far? Primarily proximity- the causa prima of the Greek scholars- as has often been noted (Petrochilos 1997, Labrianidis 2000, Labrianidis et al. 2000, Labrianidis et al. 1997).[3] Petrakos (1996, 2001) argues that the role of geography seems to be the most decisive factor affecting the allocation of Greek investment in the region. Proximity however needs to be examined and speculated upon in its specificity and not just be evoked mantra-like.[4] Therefore, the Greek scholars studying the presence of Greek FDI activity in the Balkans should employ a more realistic approach focusing on the characteristics of the companies that invest there rather than just simplifying the economic penetration

[2] We think this no coincidence. We detect a bias for a public policy perspective in Greek scholarship on the issue. A bias, which in its attempt to evaluate the consequences of Greek business activity in the region, focuses on the national and the regional while underestimating the micro (companies). Greek business activity is seen through the lenses of its impact on national economies, either that of Greece or that of the host countries. Such an impact clearly occurs and must be evaluated. Nevertheless, by thus constraining our vision, we fail to understand both the modus operandi of Greek companies in the region as well as their wider influence in the transition process. The issue definitely deserves further research but we hope through this study to provide- to our knowledge for the first time- a holistic theoretical and empirical justification of Greek FDI in the Balkans.

[3] The relative importance of psychic distance appears to have declined since the 1970s as economic conditions are becoming more important, for example industry- specific barriers to entry, market potential and industry structure (Nordstrom 1991).

[4] Only such an examination can point the extent to which proximity is an inherently shared asset within a particular population of companies and individuals, an asset, which evolves through the activity of its being shared while also affecting the evolution of those who share in it. Proximity in other words cannot simply be registered and then disregarded as the ultimate effect, in terms of trade and FDI volumes, of the shortness of distance from Athens to Sofia, from Athens to Bucharest.

with terms that first are stating the obvious and second cannot be *measured* and certainly do not discuss the dynamics of the FDI agents in the Balkans. [5]

7.2 An Analysis of the Internationalisation Decision Making Process

Much of the literature on foreign market entry concerned the choice between exporting and FDI (Root 1987, Young et al. 1989, Buckley and Ghauri 1993). The cost- based view of this decision suggests that a company must possess a *compensating advantage* in order to overcome the *costs of foreignness* (Hymer 1976, Kindleberger 1969). This led to the identification of *ownership specific* skills as the key elements in successful foreign entry (Hirsh 1976, Horst 1972).

Buckley and Casson (1976) envisaged the companies as an internalised bundle of resources, which can be allocated between product groups and between national markets. Entry involves two interdependent decisions on location and mode of control. Exporting is domestically located and administratively controlled, and FDI is foreign located and administratively controlled. Companies expand abroad through either trade or FDI in order to capitalise on specific assets they hold, relative to the cost of doing so, as it is affected by sectoral or locational considerations. Rational companies select their strategy according to its risk adjusted expected return **(R)** (Goodnow et al. 1972, Anderson and Gatignon 1986, Root 1987). Therefore, a company **i** will opt for strategy $\mathbf{j}, \mathbf{j} \in \mathbf{J}$ (Greene 1997: 913)

If $\mathbf{R_{ij} > R_{ik}}$, where $\mathbf{k \in J}$ but $\mathbf{k \neq j}$.

---

[5] By no means, we value less or disapprove the explanation of the geographic proximity to the phenomenal Greek FDI in the Balkans. Many scholars (Meyer 1998, Borsos and Erkkila 1995, Makino 1995) using the *proximity framework* have addressed the pre-eminent position of the Chinese in the economies of South East Asia, or of the Austrians in the CEE countries and the Scandinavians in the Baltics, and of course the Germans all over CEE. Yet, we do realise the need of a framework that will address and accommodate the ownership specific characteristics of the Greek companies in the Balkans. Only through such an attempt at specificity in our examination of the internationalisation strategies of the companies we can begin to evaluate how these companies expanded in the neighbouring Balkan markets, how the corporate decision- making was affected, and how assets drive this new FDI experience of the Greek companies.

Dunning (1993) has emphasised that the returns to FDI, and hence FDI itself, can be explained by the competitive-ownership advantages of companies, indicating who is going to produce abroad *and for that matter, other forms of international activity* (ibid: 142), by locational factors *influencing the where to produce* (ibid: 143) and by the internalisation factor that *addresses the question of why firms engage in FDI rather than license foreign firms to use their proprietary assets* (ibid: 145). Companies having ownership specific advantages are expected to exploit them more profitably outside their domestic market (Dunning 1981, Teece 1986).

7.3 The Econometric Model

For the econometric analysis of the data, **unordered** multiple-choice models are most relevant (Greene 1997: 913). The choice among business strategies towards the Balkan markets is clearly unordered (Greene 1997: 913). The alternative strategies are 0, 1 and 2 with 1 being the choice of a company to export in the Balkan area, 2 to undertake FDI in the same area and 0 to follow any other strategy different from the first two, marked as the indifference choice in our model. The three alternative choices depend on a set of characteristics, w, and are not ordered. They just represent different reactions and not ordered choices, where 0<1<2. A random utility model can motivate unordered- choice models.

The return of strategy **j** that company **i** expects is given by $\mathbf{R_{ij}=\beta' w_{ij}+ \epsilon_{ij}}$. If strategy j is chosen (the choice **Yi=j** being a random variable) it must be because $\mathbf{R_{ij}}$ is the largest between the alternative returns. Therefore $\mathbf{Prob(R_{ij} > R_{ik})}$, $\forall \mathbf{k \neq j}$ is the highest. In the general case $\mathbf{w_{ij}=[z_{ij}, x_i]}$, where $\mathbf{x_i}$ contains characteristics of company **i** not depending on choices, while $\mathbf{z_{ij}}$ contains the attributes of the choices varying across choices and companies. Utility depends on $\mathbf{x_{ij}}$, which includes aspects specific to the individual as well as the choices. A model on the entry mode by individual Greek companies specify that the choice depends on attributes of the ownership characteristics such as the ones presented and described in table 5.1 in chapter five, which vary across individual companies. In our case, only $\mathbf{x_i}$ is relevant, therefore, a multinomial logit model is suitable. If the J disturbances (strategic choices) are independent and identically distributed following the Weibull distribution **F** $(\varepsilon_{ij})_{=\exp}(e^{-\varepsilon ij})$ (Green 1997: 913), and we normalise, assuming $\beta_0 = 0$, (Greene 1997: 915) the following probabilities result:

$$P(Y=j) = \frac{e^{\beta'_j x_i}}{1+\sum_{k=1}^{j} e^{\beta'_k x_i}} \quad \text{for} =1,2 \qquad P(Y=0) \frac{1}{1+\sum_{k=1}^{j} e^{\beta'_k x_i}}$$

7.4 Analysis of the Econometric Model Findings

In this section, we analyse the entry process of Greek companies in the Balkans. The first step is to analyse the propensity to engage in Greek- Balkans business. The determinants of activity in the region are a function of company- specific assets that enable companies to internationalise and of their interaction with the special condition of the transition economies. Three sets of multinomial logit regression were estimated using as dependent variables the three different types of strategies (FDI, export, indifferent) and as independent variables a list of company- specific characteristics, as presented in table 5.1, in chapter five. The results are displayed in table 7.1.

Table 7.1 Multinomial Logit Estimation for the FDI- Export Decision

Company Specific Variables	Exports: (P1/P0)		FDI: (P2/P0)		FDI: (P2/P1)	
	Coefficient	Significance	Coefficient	Significance	Coefficient	Significance
Constant	0.162	0.837	21.669	0.000*	16.300	0.000*
T Debt (% of total debt)	-0.003	0.813	-0.002	0.089*	0.004	0.696
L Debt (% of long term debt)	0.012	0.502	-0.025	0.311	-0.016	0.338
Size (total capitalisation in million €)	5.461	0.023**	3.114	0.000*	2.209	0.000*
Growth (% change in turnover)	0.001	0.916	0.024	0.330	0.033	0.030**
Labour (sales/employment)	-4.979	0.361	1.182	0.042*	1.251	0.000*
Intl_t (export turnover/ total turnover) in %	0.035	0.005**	0.146	0.004**	0.055	0.093*
Geogr (number of export markets)	0.125	0.195	-0.674	0.357	-0.957	0.150
Equation X^2	20.896 (p=0.004)		106.785 (p= 0.000)		88.863 (p= 0.000)	
Model X^2 170.983 (p< 0.000), Log likelihood -290.411, Pseudo R^2 = 0.525, N= 230						

*: p<0.01, **: p<0.05, ***:p<0.10. Two-tailed test, x^2 is according to Likelihood Ratio Test.

The general explanatory ability of the model is satisfactory, as the model likelihood test ratio shows. The multinomial logistic regression has a significant overall explanatory power with a model chi- square of 170.983 ($p<0.000$). Furthermore, in each of the pairs examined, export vs. indifferent ($p<0.05$), FDI vs. indifferent ($p<0.01$), FDI vs. export ($p<0.01$), the regressions have a statistically significant explanatory power, as we can see from their chi- square statistics.

Table 7.2 Classification- Predictions Full Sample

	Predicted			
Observed	Indifferent	Export	FDI	Percent Correct
Indifferent	24	9	8	58.5%
Export	19	29	19	43.3%
FDI	1	12	109	81.1%
Overall Percentage	19.1%	21.7%	59.1%	70.4%

Looking at the classification table 7.2, 70.4% of the sample observations are correctly classified. In the indifferent category 58.5% of the companies were correctly classified as indifferent based on the variables used in the analysis. The percent of correctly classified companies as export and FDI based on the above variables is 43.3% and 81.1% respectively. The predictions are adequate given how unbalanced and non homogeneous- by including both manufacturing and service companies- our sample has been (Greene 1997: 891- 893). We included a dummy variable 0,1 to differentiate between the manufacturing and the service companies, however the results were statistically insignificant.

7.4.1 The Probability of Export vs. Indifferent

The positive, statistically significant relationship with export (INTL_T), suggest that the higher the export intensity the more interested companies are to export to the Balkans. Due to the small size of the Greek market and the lack of accessible markets of critical size, Greek companies could not benefit in many cases from economies of scale. By exporting in the Balkan markets, with low international standards and absence of big companies, Greek companies increased their probabilities of economic efficiency. Such a strategy is likely to include high start- up costs (i.e. to establish distribution networks, investigate trade regimes) and hence demand followers that are more dynamic.

This activity is probably the best and most encouraging indicator of the emergence of a new, integrated regional market. In addition, because of different tastes for the western European products in the region combined with low incomes and hence low demand for western European products, Greek companies have an opportunity to sell their products at competitive prices, pre-empting western competition at a later stage. Alternatively, it may suggest that companies turned their attention to the Balkans in the 1990s apparently because of their recent opening favoured by geographically proximity and absence of big European investors.

Finally, SIZE is an important, statistically significant, determinant for export activity. Larger companies possess more managerial and financial resources, have greater production capacity, attain higher levels of economies of scale and tend to be associated with lower levels of perceived risks in exporting operations. These factors can facilitate the development and sustenance of a sound competitive position in the Balkan markets. It would therefore be reasonable to expect that large companies are likely to enjoy more competitive advantages in export markets and that there would also be a positive relationship between company size and export choice.

7.4.2 The Probability of FDI vs. Indifferent

The second set of estimations presents the effects on the probability of FDI over indifference (P2/P0). The variables that come out as significant present some very interesting findings. TDEBT (heavily influenced by short term debt as can be seen in table 7.1) has a negative sign. Companies in the FDI category probably have not easy access to short- term financing. The lower their short- term financing ability, the less likely they are to prefer FDI, while we should expect FDI companies to be more risk averse declining to favour FDI when their short term debt is high compared to indifferent companies.[6] The estimated negative relationship with TDEBT reinforces the argument that FDI orientated companies are financially apprehensive. The higher their total debt, the less likely they are to engage in FDI.

SIZE affects the FDI choice positively underlying the large companies, are more likely to prefer expanding their production base in the Balkans. Large organisations with a significant analytical capability could approach these markets in a comparatively speaking methodical and purposeful manner. Organisational capabilities determine the opportunity costs of internationalisation. To compete with host country companies in their own markets, Greek companies must possess superior asset and skills that can earn economic rents that are high enough to counter the higher cost of servicing these markets. Therefore, size may represent all or most of the possible ownership specific advantages and-or it may describe sheer oligopolistic market power.

Internal resources of a company are just important to its growth as external ones. Therefore, a company having expanded rapidly in its domestic location may possess the necessary attributes, which will also enable it to develop abroad. A company's asset power is reflected by its size and international experience. Greek companies with related experience and economies of common governance could organise a given transaction at lower costs. These resource based effects are particular relevant for international business because it involves a major fixed cost component. Larger companies can use economies of scale and of common governance because the per unit internal transaction cost decline with increasing turnover. Capabilities arising from common governance are especially relevant for operations in countries with high economic risks. Companies using advantages of common governance can integrate new operations in the Balkans into their organisation at low additional costs. Therefore, the larger the size of the company the more active in the Balkans will be.

---

[6] The positive sign for LDEBT indicates the companies have already established a solid financial background before proceeding with such a demanding strategy as FDI.

Therefore, from our data analysis in table 7.1, large companies are more likely to engage in FDI because the marginal costs of adding a new operation are lower, and because they have better possibilities to leverage investment risk. Companies need asset power to engage in international production and to successfully compete with host country companies. Resources are needed for absorbing the high costs of marketing, for enforcing patents and contracts, and on achieving economies of scale. The size of the company reflects its capability for absorption of these costs and engages in FDI.

LABOUR intensity favours FDI in agreement with the argument that the more labour intensive production is in Greece, the more likely Greek companies are to initiate outward investment in cheap labour countries, switching labour intensive activities from high labour cost to low labour cost locations, therefore enabling these companies to balance the increasing cost of production in Greece. Since the relative comparative advantages of the Balkan countries are labour intensive production processes, an efficiency- seeking role in the Balkans provides a cost- effective supply platform for Greek companies aiming to improve their production competitiveness, thus entering the Balkans in search of low production costs. The existence of low labour costs in the Balkans can be useful to Greek companies in declining sectors or in highly competitive ones. Lower labour costs in the Balkans compared to Greece are statistically and positively determine the probability of locating a new branch plant in the Balkans.

Companies with labour intensive production processes are most likely to produce in the Balkans. The increasing wage costs in Greece put competitive pressures on labour intensive production. Therefore, emphasising the importance of labour costs for decisions over location of production we can say that companies with labour intensive production processes invest in the Balkans. As the economic growth in Greece is accelerating, wages increasing. This made it more costly to produce labour intensive commodities. As the Balkans are abundant in cheap labour, they possess comparative advantages in the production of such labour intensive manufacturers.

The positive and significant sign for INTL_T suggests that the more familiar with export markets Greek companies are the more likely they are to undertake FDI. Internationally experienced companies have competitive advantages that arise from internationality as such. This includes international accumulation of know how, arbitrage opportunities, flexibility for production shifting, superior recognition of opportunities, and international diversification of risk.

The significant positive export (Intl_t) effect suggests that the more Greek companies export, the more likely they are to turn to FDI in the Balkans because they are more familiar with foreign tastes and habits and they may want to create export platforms there from which to satisfy other foreign markets. The last argument combines easily with the positive coefficient of Intl_l in the first set of estimators (P1/P0). Companies may not be interested in satisfying the low demand of the Balkans but in using their local plants as export platforms. Although the Balkan countries have made progress in the process of systemic transformation from socialist to market economy, however, still delayed reforms increase business risks.

Experience creates- and is sometimes the only way to achieve- increased market knowledge and uncertainty reduction, and experience is therefore considered an ownership specific advantage in the so- called eclectic theory of international production. Our data analysis clearly explains that companies with organisational capabilities as they are explained by the size of the company and international experience of exporting are more likely to internalise their business.

7.4.3 The Probability of FDI vs. Export

The third set of estimations examines the probability of FDI with exports to the Balkans as the comparison choice (P2/P1). The SIZE effect confirms the result that the larger the company, the more likely it is it will prefer FDI to exports. Large companies have more resources to invest in innovation, and pursue more aggressive expansion strategies. Large companies benefit from economies of scale, scope and learning therefore they have develop solid corporate foundations before they expand abroad. Our research findings in table 7.1 emphasise the role of size, arguing, the large companies tend to service foreign markets through FDI rather than trade. The economies of size reduce the costs of engaging in business with the Balkans. We suggest that the size of the company generates economies of scale and inhibit effective competition. Larger companies are more well equipped to defend themselves and take advantage of imperfect market environments. Average company size is more strongly associated with the foreign production propensity. This suggests that foreign production require a greater outlay, which a large company is better able to overcome.

The positive GROWTH effect adds a dynamic dimension to size as a determinant of FDI preference. The GROWTH variable is positively signed and significant, suggesting that the transition markets are attractive to growing companies. Growing companies have more resources to redeploy and would therefore be more likely to expand to new regions. As the results of the multinomial model suggest, companies experiencing higher growth rates are the ones who are pursuing an FDI towards the Balkan markets. Therefore, companies with high, satisfactory growth rates are engaging in new business with the Balkans, be in search of new markets, and new *sources* for growth.

In high market potential countries, FDI is expected to provide greater long- term profitability to a company compared to exports, through the opportunity to achieve economies of scale and consequently lower marginal cost of production. Even if scale economies are not significant, a company may still choose investment modes since they provide the company with opportunity to establish long- term market presence and thus growth. The positive sign of GROWTH reflects the future possible gains from expanding, accessing markets in the Balkans, satisfying the demand for new products and services as well as using the low cost production countries of the Balkans to export in the EU, when permitting, and the more advanced transition countries of CEE, giving a *combined* character of market seeking and resource seeking motives.

The production relocation argument suggested that labour intensive companies would be more active in terms of FDI activity in the Balkans because they can use labour cost differences. Our results for the labour intensity variable (LABOUR) are in agreement with the argument that the more productive companies, the more likely are to initiate outward investment in cheap labour countries, switching labour intensive activities from high labour cost to low labour cost locations. Lower labour costs in the Balkans compared to Greece positively (and statistically significant) determine the probability of locating a new branch plant in the Balkans. If relocation of production were a major force to international business, then the net effect on the propensity to engage in international business would be positive.

7.5 Conclusions

The main concluding remarks of this chapter suggest that in the 1990s Greek companies increase markedly their shares of outward FDI in the Balkans through a rather careful consideration of their financial and market structures apparently being urged by the loss of local comparative advantage. An obvious example is the positive effect of the long and medium term borrowing capacity of companies engaged in FDI in contrast to the negative effect of short- term borrowing. The solid market basis is noticed in the positive effect of the relative company size as well as the growth rate of sales. In addition, the more intense the acquired familiarity with foreign markets through exports the more likely the undertaking of FDI was found to be. The estimated different strategic reactions of the domestic market catering and export orientated companies may underline the resolution of the former to engage more intensely in FDI, while the latter are more indifferent between exporting or investing possible preferring a home based expansion strategy. Labour intensity, an old local comparative advantage, was found to affect positively the FDI vs. export choice. New low labour cost locations are preferred.

CHAPTER EIGHT

The Determinants of Ownership Structures in the Balkans

8.1 Introduction

The choice of entry mode has been addressed frequently in the international business literature. Most of this work focuses on the choice ownership, between a joint venture and a wholly owned affiliate, from a theoretical (Anderson and Gatignon 1986, Beamish and Banks 1987, Hennart 1988, Hill et al. 1990) or an empirical perspective (Gatignon and Anderson 1988, Gomes- Casseres 1991, Hennart 1991). However, relatively few studies address the choice between entry via acquisition or greenfield project. These studies focus on the investing company, developing propositions and empirical tests primarily from transaction cost or resource based perspectives (Hennart and Park 1993, Barkema and Vermeulen 1998).

The issue of ownership of foreign operations is central to any theory in the international business. This issue has been addressed by a number of scholars using transaction cost arguments (Buckley and Casson 1976, Teece 1986). The narrower question of how transaction costs affect the choice of ownership structure of foreign subsidiaries has received much less attention. Yet, a complete theory must explain why companies would form a wholly owned foreign subsidiary in one case, and a joint venture in another. A detailed study of ownership choices may throw additional light on the transaction cost approach to company behaviour.

Transaction cost theory arguments influences the set of determinants of the optimal ownership as produced by the maximisation of net profits. Influential contributors of research on international entry modes have examined the contingent relationship between company characteristics and selected entry mode (Stopford and Wells 1972, Johanson and Vahlne 1977, Dubin 1975, Davidson 1980).

A variety of studies have considered industry, and company specific factors and their contingent influence on wholly owned entry mode decisions (Caves and Mehra 1986, Zejan 1990). Another stream of literature has compared the joint venture and wholly owned entry modes (Gatignon and Anderson 1988, Kogut and Singh 1988, Kim and Hwang 1992, Agarwal and Ramaswami 1992).[1] There is considerable theoretical and empirical support for the contingency entry mode argument. In the Balkans, specific issues arise due to the process of systematic transition, especially the rapid opening of the economies and the privatisation of SOE.

The ownership advantage explains a company's resource commitment, and the internalisation advantage explains a company's organisational control difficulties. Organisational control concepts or proxies that have been empirically supported include ownership control, organisation culture and managerial transfers (Agarwal and Ramaswami 1992, Caves and Mehra 1986, Kim and Hwang 1992, Kogut and Singh 1988, Li and Guisinger 1991, Wilson 1980, Yip 1982). Variables that relate to both concepts and which have been supported in contingency entry mode research include country experience, competitive position, and company size (Caves and Mehra 1986, Kim and Hwang 1992, Kogut and Singh 1988) product diversification and multinational experience (Caves and Mehra 1986). Therefore, resource commitment and organisational control have been shown to support the contingency factor and entry mode relationship.

Many scholars have suggested that different entry modes require different resource commitments. Among the first to outline a relationship between resource commitments and international business growth were Daniels (1970) and Vernon (1983). Anderson and Gatignon (1986) developed a transaction cost model that considered the trade- off between the costs of mode control and the costs of mode resource commitment. Hill et al. (1990:118) elaborated on this idea of resource commitment when they differentiated

[1] Joint ventures are a hybrid form between market and intra- company coordination, which reduces market transaction costs at the expense of higher coordination costs between the parents.

between joint ventures and wholly owned entry modes. They defined resources as dedicated assets that cannot be re- deployed to alternative uses without cost.

The above theoretical arguments and evidence provide a model for the contingent selection of joint ventures relative to the two other modes. To contingently differentiate between the wholly owned and joint venture modes one has to consider the nature and type of resource requirements. Two types of resource requirements are use to make this differentiation. The first is the perceived inimitability or transferability of resources, and the second is the core nature of the resources in the parent company.

The important difference between the acquisition and joint venture modes is that companies in a joint venture mode share and provide access to some of their internal resources, while in the acquisition mode no such access is provided. A company will use the joint venture mode to rectify a resource deficiency only if it is willing to risk providing access to such resource, and can find a willing and suitable partner(s) having appropriate resources to share or provide access (Hill et al. 1990). The critical factor in the joint venture is finding partners that are predisposed to providing such access to resources. This predisposition must be based on inter- company trust, and a perception that access and sharing of resources will not negatively affect the company strategically (Daniels and Magill 1991). A company will tend to favour a wholly owned entry if it cannot find a suitable partner predisposed to providing access or sharing the required resources, or if it is itself predisposed to providing access to internal resources.

A variety of researchers have suggested that core resources or competencies are vital to long- term competitive advantages (Collis 1991, Hamel and Prahalad 1990, Prahalad and Bettis 1986, Stalk et al. 1992).[2] The critical element is the perceived risk of either exposing or sharing the core resources, and the resulting loss of future competitive advantage, given the benefits of the joint venture mode. If companies want to protect these vital core resources and the perceived risks of having them transferred to the second company are high, then they should procure the needed resources through a wholly owned subsidiary.

International business is subject to higher transaction costs than most domestic business, due to extensive imperfections on international markets. This makes the choice of an optimal organisational form a key issue in international business strategy. Companies entering a foreign market can choose among an array of possible organisational modes, including joint or wholly owned ventures. These alternatives differ in the control that the entrant attains over the local operations, and have been analysed in the literature by applying transaction cost economics (Anderson and Gatignon 1986, Hennart 1991).

8.2 An Analysis of The Determinants of Ownership Structures in the Balkans

To a large degree the choice of the investment structure depends on the reason behind the decision to invest in the Balkans and on the resources needed in the new venture, and second on the resources that are found within the entering company.[3]

The nature of the company's operations in the foreign market depends on its choice of mode of entry. This decision is one of the most critical strategic decisions. The Balkans pose particular challenges to investors because multiple market failures such as the unregulated markets, the incapacity of commercial infrastructure, the absence of the legal framework protecting the interests of the shareholders and the proprietary assets of the companies, have to be accommodated and it is not feasible to work with the efficient- market assumptions suitable for developed economies. By exploring FDI in the countries we found aspects of the decision that otherwise have gone unnoticed. Therefore, our findings should be relevant for investment in the Balkan markets.

[2] Collis (1991:52) defines core competencies as the irreversible assets along which the firm is uniquely advantaged. These are the type of resources that a company would be unwilling to share or expose to a potential competitor.

Even when host countries do not impose restrictions on foreign ownership, as in the case of the Balkans, profit- maximising companies should in theory rank every alternative ownership structure in terms of expected return and select the best choice. Formally, suppose a company ι, considering investing abroad in a production plant, has a set J of alternative choices regarding the ownership structure. Profitability of each alternative, say π_{ij}, can be derived as a function of its potential costs and benefits.[4] If a company makes the choice j (the ownership structure), we assume that the choice is the maximum among the j choices, if and only if $\pi_{ij} > \pi_{ik}$ $\forall k \in J, k \neq j$ (Greene 1997:913).

When the expected economic gains of sharing ownership outweigh the organisational and coordination costs, partial ownership will be the preferred mode of operation. Otherwise, a fully owned affiliate structure would be selected. That is, the process of weighing costs and benefits of various ownership options will shape companies' preference. In the case of partnership, the issue of who has control of the affiliate is also relevant in determining the observed degree of partnership. Partial ownership may imply a mixed corporate culture and much looser ties to the parent company. Nevertheless, this option can offer a better knowledge of local market conditions. An interesting point to note is a relative disadvantage of acquisitions relative to greenfield and joint ventures. This problem is related to the high cost of integrating the target company's labour and technological asset.

In fact, one reason for the formation of partnerships between Greek companies and local agents may be the need to share risk, notably that associated with the uncertainty of operating abroad. The risks associated with FDI can be classified in various types. For

---

[3] Thus, the resources that companies possess determines whether they pursuing an internal growth strategy i.e. greenfield, or an external growth strategy i.e. acquisitions and joint ventures (Penrose 1959).

[4] The first step in designing the appropriate entry mode is defined as the match of foreign market opportunities or threats to a company's existing resources and capabilities. The choice between the three alternative ownership structures basically involves trade- offs related to the level of resource commitment (Stopford and Wells 1972), the degree of control (Caves 1982, Davidson 1982, Root 1987), thus the specification and assumption of risks (resource commitment and monitoring cost) and returns (maximum economic return on for the commitment of company's resources) (Franko 1971, Stopford and Wells 1972, Hladik 1985, Kim and Hwang 1992).

our study, the most relevant types appear to be control risks and resource risks. Assuming that a foreign partner transfers to its affiliate intangible assets, i.e. technology the expected turnover from operating abroad (T) can be specified as a function of the amount of transferable resources (TR), for which a transfer price should be agreed, and the profits of the affiliate (π_a). That is, $\mathbf{T} = f_g\,(\mathbf{TR}, \boldsymbol{\pi}_a)$.

The amount of assets transferred to an affiliate can be seen as a positive function of the ownership share, since the effort to transfer skills is likely to be better compensated the higher the share of the foreign partner who then receives a larger part of the direct or indirect rent yield by these assets. Similarly the higher the foreign partner's ownership share the larger its share in the affiliate's profits. In addition, a company that decides to invest abroad may incur costs, notably those associated with monitoring the affiliate's operations, the last being a function of geographical and cultural distance. Therefore, the total costs that a Greek partner has to balance against expected gains can be expressed as $\mathbf{C} = f_c\,(\mathbf{R}, \mathbf{OC})$ where R stands for potential resource costs and OC for control costs.[5]

Combining the expected gains of the Greek partner and his cost of control, we obtain the net gains he can derive from operating abroad, i.e. $\boldsymbol{\pi}_i = \mathbf{T} - \mathbf{C} = \mathbf{g}\,(\mathbf{s})$ with $0 < s \leq 1$, which is assumed to be maximised with respect to the Greek ownership share, ***s***. The resulting optimal ***s*** will be adopted. Control has a critical impact on the future of a foreign company. Without control, a company finds it more difficult that invariably arise when two parties to a contract pursue their own interests (Davidson 1982). Further, the entrant can use its control to obtain a larger share of the foreign company's profit. In short,

[5] The costs tend to be significant concern for Greek technology intensive companies, since the leakage of important information based assets to direct competitors may cause a loss of competitive advantage and hence a reduction in future profits (Nakamura and Yeung 1994). For this reason, a Greek partner has the incentive to increase its ownership share in order to protect its property rights and to control the use of the intangible assets. Therefore, R is assumed to increase as the Greek partner, the owner of the intangible assets, increases its ownership participation in the affiliate. By contrast, as the foreign participation increases, monitoring costs are expected to increase, since the domestic partner has less incentive to supervise the affiliate operations (Nakamura and Xie 1998). Thus, OC is expected to increase as the Greek partner increase its ownership share. When a Greek partner faces great loss in proprietary rights, the effect of R in C tends to outweigh the effect of OC and hence, the Greek partner will demand more ownership.

control is a way to obtain a higher return. Yet, control carries a high price (Vernon 1983). To take control, the entrant must assume responsibility for decision- making a company may be unwilling or unable to carry out in an uncertain foreign environment. Control also entails commitment of resources, including high overhead.[6] Resource commitment also increases the company's exposure. This is due to the possibility of losses due to information leakage and opportunistic behaviour on behalf of a local partner (Davidson 1982). Thus to assume control is also to assume some form of risk (Cateora 1993, Czinkota et al. 1993, Daniels and Radebaugh 1993, Paliwoda 1993, Young et al. 1989).

Although TR and π_a are not directly observable, we can see them as a function of company- specific characteristics and host industry conditions. It would be expected that factors related to the structure of competition in the host industry might affect the affiliate's profits and hence the choice of ownership participation. In profitable and growing industries, expected profits from an affiliate may be greater than those in less profitable declining industries. Therefore, the Greek partner's demand for ownership will be higher, the more profitable and dynamic is the host industry. However, when the domestic competition is imperfect it may be advantageous to work with a local partner familiar with the environment. In an oligopolistic industry, the level of profits an affiliate can achieve may be higher but its volatility may be higher as well. Therefore, the partnership with a domestic agent may be a mechanism to reduce or at least share the risk associated with an unknown market.

Still, related to company specific factors is capital and R&D intensity. Companies characterised by high capital intensity require a large resource commitment but may yield large profits. Although high profits may induce Greek companies not to share ownership with local partners, high capital requirement may lead them to share potential

The contrary may occur when the potential reduction in affiliate's profits due to agency problems tends to exceed the expected costs.

[6] This is turn creates switching costs, reducing the company's ability to change its institutional arrangement should its choice turn out to be suboptimal.

financial risks by engaging in a partial ownership structure. This may be particular relevant if the Greek company cannot afford the entire investment and sees the partnership option as a way to complement its resources.

A similar reasoning predicts a negative relationship between the affiliate's size and the ownership structure. One reason underlying the decision to produce abroad may be a reaction to the moves of direct competitors. Some companies operating in an oligopolistic industry may find it optimal to follow the leading company's strategy and, hence to engage in FDI (Knickerbocker 1973, Franko 1989). Yet, the presence of economies of scale in the industry may force some companies to set up plants larger than they can afford and manage (Gomes- Casseres 1990). In particular, the difficulty of managing alone a large local workforce may lead the foreign partner to reduce demand for ownership in order to decrease the control costs (TR) associated with large affiliate size (Nakamura and Xie 1998). In these situations, searching for local partners and sharing the ownership may be a profitable way to follow the leading company without compromising the success of the operation.

However, the size of the affiliate can have an opposite effect in determining foreign ownership choice, if it is conceived as proxy of market power. The greater the size and the market power of a company, the larger will be the potential for increasing profits. Hence, the larger the share the foreign partner may demand. Moreover, as Nakamura and Yeung (1994) have suggested, the affiliate's size may also affect the amount of assets that the investor finds optimal to transfer. If size affects positively TR, the ownership share demanded by the foreign partner will follow the size of the affiliate.

Regarding R&D activities, the company specific advantage may render large profits and hence create increased ownership demand. In this context, the propensity to search for local partners is lower. In R&D intensive industries, skill or technological costs tend to be of significant concern for foreign partners, especially in transition economies, given the existing market imperfections. The ownership control of their affiliate tends to be the mechanism used to protect their proprietary rights (Calvet 1981). In particular, a fully owned affiliate has the advantage of being tailor- made to fit the Greek companies' objectives with respect to R&D. Additionally, all the potential gains of these activities can be fully internalised by the affiliate and parent company. In case of partial ownership, the cost of coordinating, monitoring and defending the proprietary rights may outweigh the potential gains of a partnership with local agents (Caves 1996).

The net gains a foreign partner can derive from operating abroad are a positive function of the TR and π_a and a negative function of the control costs. While a fully owned affiliate can minimise a foreign partner's loss due to misappropriation of its intangible assets, it might, however, be unable to maximise the return that these assets could potentially earn. That is, the observed π_a may differ from the potential maximum level of profits, say π^*_a. It may well occur when the production is natural resource or skilled labour intensive and the Greek company is unable to contract efficiently the necessary production inputs. In particular, when the main resources are locally controlled, Greek companies may find partnership with a local agent as the best option to produce in the host country, since it may narrow the potential gap between π^*_a and π_a. In this case, the benefits of using the ownership channel to gain access to relevant inputs may outweigh the cost of sharing ownership. This is, in fact, the main argument of the transaction costs theory in relationship to ownership choices.

The theory posits (Teece 1986) that the problem of structuring ownership is solved by evaluating the trade- off between the costs of using the market or the internal channels for transferring or gaining access to the relevant inputs, such as natural resources, skilled labour, R&D, or organisational capabilities. In this context, the choice of partial ownership can be seen as an incentive mechanism used by the Greek partner to induce the domestic partner to provide efficiently the required production resources instead of contracting them out.

Another factor that is likely to narrow the potential gap between π^*_a and π_a is related to asymmetric information between Greek and domestic agents. Partial ownership may be the appropriate way to acquire industry specific knowledge since the partnership with local agents may facilitate access to valuable information unknown to the Greek company.

8.3 The Econometric Model

Given the nature of the dependent variable, which represents the individual choice of each Greek company among three alternative ownership structures for their affiliates in the Balkans, discrete choice models offer the best approach to assessing the determinants of the observed ownership structures. In this research, regarding the definition of the dependent variable, we consider different types of ownership; joint venture, acquisition and greenfield. This implies that our dependent variable assumes only three possible values: 0 for joint venture, 1 for acquisition, and 2 for greenfield. Therefore, our hypothesis will be tested with multinomial logit analysis, because the dependent variable can have three possible values (Bell 1996). As we have stated above, a company will choose alternative j if and only if it renders the highest expected profits. The profit ι can expect from choosing the alternative j is, $\pi_{ij}= \beta'\chi_{\iota j}+\varepsilon_{\iota j}$ (Greene 1997:913), where the vector χ_ι compromises the observed company specific characteristics, β is the compatible vector of unknown parameters to be estimated, and $\varepsilon_{\iota j}$ the stochastic term associated with each choice and company.[7] Given the stochastic nature of the profit function, the probability that ownership structure j is selected by any company ι can be written as $P_{ij}=$ Prob ($\pi_{ij}>\pi_{ik}$ $\forall k\in J, k \neq j$) (Greene 1997:913). The results are based on the multinomial logit model, which provides a set of probabilities for the choices of a company with characteristics x_i. These probabilities are (Greene 1997: 915):

$$P_{ij} = \frac{e^{\beta'_j x_i}}{1+\sum_{k=1}^{j} e^{\beta'_k x_i}}, \text{ for } j=1,2 \qquad P_{i0} = \frac{1}{1+\sum_{k=1}^{j} e^{\beta'_k x_i}}$$

8.4 Analysis of the Econometric Model Findings

In this section, we analyse the choice of entry mode of Greek companies in the Balkans. The theoretical issues and data availability drive the choice of independent variables. These variables are based on a company's capabilities, since these capabilities yield competitive advantage in the marketplace. These variables have been defined and explained in chapter five, table 5.9.

Looking at the results in table 8.1, R&D intensity and advertising intensity, the resource-based concepts that have been empirically linked to the choice of wholly- owned modes, are in agreement with the existing literature (Agarwal and Ramaswani 1992, Caves and Mehra 1986, Kogut and Zander 1993, 1995). The variables that have significantly and statistically explain the preference for the choice of entry mode for the Greek companies in the Balkans are the affiliates' capital (SIZE), the capital intensity of the investing companies (INV), the R&D intensity of the investing companies (R&D), the resource intensity of the investing companies (RESRC), the labour intensity of the investing companies (LABOUR), the adverting intensity of the investing companies (ADVERT), and last but not least, the advantages related to the geographical diversification of the investing companies (GEOGR).

[7] The introduction of the stochastic term aims to capture unobserved company specific characteristics, such as company capabilities and strategies, that may also determine whether or not a Greek company

Table 8.1 Multinomial Logit Estimation of the Ownership Structure Decision

Variable	Acquisition	Greenfield	Joint Venture
Intercept	-9. 40 (0.003) *	9.39 (0.045) *	2.18 (0.512)
SIZE	1.25 (0.008) *	-1.04 (0.067) ***	-0.73 (0.083) ***
INV	0.01 (0.845)	-0.26 (0.007) *	0.12 (0.026) **
PRF	-0.04 (0.117)	0.05 (0.176)	0.02 (0.451)
GROWTH	0.02 (0.340)	- 0.006 (0.807)	-0.03 (0.143)
R&D	2.46 (0.065) ***	-182.78 (0.191)	19.92 (0.303)
RESRC	0.26 (0.698)	-1.31 (0.131)	1.18 (0.051) ***
LABOUR	7.79 (0.078) ***	- 1.67 (0.038) **	-6.51 (0.069) ***
ADVERT	46.78 (0.073) **	-89.01 (0.170)	-4.20 (0.911)
GEOGR	0.94 (0.028) **	-2.22 (0.001) *	0.27 (0.558)
Equation X^2	22.272 (p= 0.008)	40.345 (p= 0.000)	10.762 (p= 0.292)
Log Likelihood	-203.765		
Pseudo R^2 =	0.343		
N= 122			
X^2	51.280*		
Average of p_{ij}	57.4		

Figures in parentheses are significance levels. *, **, and *** mean that coefficients are statistically significant at 1%, 5% and 10% level respectively. The indicator p_{ij} measures the proportion of correct predictions for choice j and, for each model, we present the average of p's.

The multinomial logit regression has a statistically significant overall explanatory power with a model chi- square of 51.280 (p=0.000). In addition, 57.4% of the sample observations are correctly classified.

Table 8.2 Classification- Predictions Full Sample

	Predicted			
Observed	Joint Venture	Acquisition	Greenfield	Percent Correct
Joint Venture	4	22	5	12.9%
Acquisition	5	46	9	76.7%
Greenfield	3	8	20	64.5%
Overall Percentage	9.8%	62.3%	27.9%	57.4%

needs contributions from local companies, and unobserved choice- specific attributes.

In the joint venture category, 12.9% of the companies were correctly classified as joint ventures based on the variables used in the analysis. The percent of correctly classified companies as acquisitions and greenfield based on the above variables is 76.7% and 64.5% respectively. The predictions are adequate given how unbalanced and non homogeneous- by including both manufacturing and service companies- our sample has been (Greene 1997: 891- 893). Although we have tried to include a dummy variable 0,1 to differentiate between the manufacturing and the service companies, yet the results were statistically insignificant and not robust as the results presented in the above table.

8.4.1. The Effect of R&D Intensity on the Entry Mode Choice

We suggest that a company's competitive R&D position is threatened by sharing or exposing these core competences, as well as that the higher the risk, the higher the ownership control is required. A manager from a telecommunications company and a manager from an electronic components manufacturing company reported that their companies with high R&D intensity preferred to have complete control over their proprietary know- how in order to preserve and- or best exploit the knowledge, given imperfections in the external markets for technology. Thus, the higher the Greek parent R&D intensity, the greater the possibility that the Balkan affiliate will be fully owned. Although we would expect that a parent's R&D level increases the likelihood that foreign expansions are greenfields rather than acquisitions, from a transaction cost perspective, the results for greenfield are in the opposite than expected direction. Our findings from table 8.1 suggest that companies that had already developed proprietary technology in Greece will exploit abroad through an acquisition investment, hence high R&D intensity should encourage acquisition form of entry.

Twenty- seven Greek companies (3 tobacco companies, 12 food and beverage companies, 3 telecommunication companies, 4 petroleum companies, 4 electronic components manufacturers, 2 pharmaceutical companies) that acquired Balkan companies expressed the concern that by transferring large amounts of tacit or poorly protected proprietary know- how to their subsidiaries the pricing and the enforcement of contracts with potential joint venture partners will be fraught with difficulties. It is difficult to price technology, and to prevent its leakage in a joint venture. According to transaction cost economics, loss of control increases the transaction costs in the case of a transfer of specific assets in combination with possible opportunistic behaviour by the partner(s). Based on the above quotation from the Greek managers and the statistical significance of the propensity to acquire a Balkan company, we argue that a Greek company's transfer of technological know-how varies directly with its R&D intensity, thus there will be an inverse relationship between R&D intensity and the propensity to joint venture.

Our findings show that Greek company capabilities determine establishment strategy. Greek companies transferring technology reported that they were not interested in just gaining quick market access while they were protecting their unique capabilities. They were geared to long- term goals that are based on utilising their unique capabilities. Managers from the electronic components companies (4), tobacco (3) and food and beverages (12) companies reported that in order to attain superior profit in the Balkans, their companies should successfully commercialise goods in the local marketplace. The first strategy- market approach was to transfer superior technological knowledge and build technological leadership in the host country. When they could exploit technological knowledge in the Balkan markets without losing its value, and the advantages generated by this knowledge, they could build a strong competitive position in a local marketplace.

Further in our discussion with the all managers from the electronic components companies (4), tobacco (5) and food and beverage companies (19), the managers justified their decision to acquire a Balkan company by stating that technology transfer influences subsidiary ownership choice and performance not only because a transfer is difficult and costly but also because the transferred technology may not always be successfully commercialised in local marketplaces, and since greenfield subsidiaries will lack the networking and distribution system necessary for the commercialisation of technology, that leaves acquisition mode as the most appropriate for the control and commercialisation of technology in the Balkans. Since they (the above companies) were also interested in maximising the economic rents on their knowledge, this creates a decision scenario in which the need for protection will be traded against return potential. Lack of protection in a joint venture would make sharing of specialised knowledge risky in the long run particularly since it would limit the flexibility they have in adapting to future contingencies.

Furthermore all the managers (23% of our sample companies) from the above three industries reported that market entry to exploit existing capabilities in the Balkans frequently necessitates associated new capabilities in order to be competitive. Due to lack of experience in a new sphere of activity (commercialisation of technology in new markets with different standards and requirements of technology), not only these companies will incur substantially higher costs of information acquisition, interpretation and absorption, but development and integration of new knowledge is gradual and incremental process which would be more costly and less efficient relative to competitors who are already present and more experienced in this domain, according to the managers of the above three industries.

A theme of the transaction costs and entry mode choice literature has been the market failure for information knowledge transfer, be it due to information symmetries (Arrow 1971) or tacitness of the knowledge (Kogut and Zander 1993). In the Balkan economies, these issues are of particular concern because the institutional framework does not provide for efficient protection of property rights, and potential joint venture partners are inexperienced in complex negotiations, therefore causing problems in choosing partial internationalisation. Furthermore, the absence, of systems providing information and legal enforcement of contracts allowed extensive information asymmetries and opportunities for opportunistic behaviour, thus increasing transaction costs. According to 91 Greek managers a primary motive for transitional companies is, usually, the acquisition of technology in order to be able to make the products themselves in the future. Therefore, they often try to seize, or copy, the technology to become independent from the Greek companies. For this reason, joint venture partners are viewed as potential competitors.

Greek technology- intensive companies prefer to internalise their transactions in technology intensive goods and services. These companies are concerned about the transfer of strong transferable competitive advantages, which include production know-how, assessment of market opportunities for innovative products, feedback from sales to product development, as well as the training of sales department. Thus, our findings suggest that entrants that transfer technology are more likely to establish a wholly owned subsidiary having a higher level of control in technology intensive industries, thus reducing transaction costs. Wholly owned subsidiaries provide better safeguards against the risk of the dissemination of know- how than joint ventures, as in the latter case there are always at least two parties involved, with possibly deviating interests. Thus, by looking at the data in tables 4.5 and 8.1, Greek technology intensive companies are expected to choose wholly owned entry strategies in the Balkans, since their business activities are subject to asset specificity and thus sensitivity to market failure.

8.4.2 The Effect of the Affiliate's Invested Capital on the Entry Mode Choice

From our data analysis in table 8.1, it is clear that the larger in terms of its capital invested the affiliate is, the more likely to possess the necessary financial resources for full ownership of its foreign operations and it is well positioned for a more resource demanding full ownership structure, such as acquiring a Balkan company, than a smaller company. The propensity of a Greek company to invest in a greenfield project is statistically negative. We suggest that a greenfield investor should invest more money in establishing a production unit, hire and train employees and establish distribution networks, which of course in many cases can exceed the financial costs of just building on something that already exists such as acquiring a domestic company.

A Greek foreign operation that requires larger resources relative to the resource availability of the parent is more likely to be structured as jointly owned, as the findings in table 8.1 show. In that case, a partner may provide the money, personnel and other resources to ensure the necessary fit between the needs and resources. Without that correspondence, the goals of the foreign affiliate and the intentions of the Greek company will not be easily realised. Joint venture arrangements allow the Greek companies to share costs and risks, as well as complementary assets and skills with host country partner companies. By doing so, a Greek company is able to reduce the long-term uncertainty at a lower cost than through pure hierarchical or market approaches.

8.4.3 The Effect of Labour Costs on the Entry Mode Choice

Our results from table 8.1 show that a company with high labour costs will opt for an acquisition strategy. On the contrary, labour costs seem to negatively affect the choice of greenfields and joint ventures.

Holding everything else constant, affiliates experiencing high unit labour costs tend not to be shared by Greek partners, i.e. form a joint venture. This means that when a foreign affiliate uses a skilled and qualified workforce, subsequently resulting in relatively high unit labour costs, the most probable choice of the Greek partner will be an acquisition. This finding is interesting if we consider that post- socialist Balkan economies are experiencing a major industrial restructuring process, which increase the post-investment costs for Greek investors. Increasing productivity often requires a lay off a large number of employees. This is costly to organise and could severely damage the investors' local reputation.

Greek managers in the textile (1) and food and beverages (19) companies suggested that the higher the labour intensity of an industry, the higher the post- investment costs due to the over- employment problem. Therefore, they preferred acquisitions to joint ventures, since acquisition provides more managerial control compared to a joint venture. Thus they have more freedom and autonomy in the relations with the labour force and they can reduce its labour force more easily, than in a joint venture where the influence of the local partner may be stronger.

The above twenty managers further suggested that they aim at utilising the human capital of the local company. To access local human capital, an acquisition is more efficient because setting up a greenfield operation and hiring key individuals does not permit the entrant to tap specialised knowledge. To engage in a greenfield venture, complementary local resources are needed. This includes skilled labour. In the Balkans, labour skills are underdeveloped. Local companies employ qualified employees. Local companies are unwilling to let them go, either because they are part of their respective competitive advantages or for political considerations. Hence, lack of resources available on local companies can induce Greek investors to consider an acquisition entry mode rather than a greenfield entry.

8.4.4 The Effect of Resource Intensity on the Entry Mode Choice

Comparing the estimated effects of the variable associated with resources' intensity, RESRC affects positively the probability of observing joint ventures. It seems plausible that access to the best resources is already in the hands of local companies, and that the best way to access these resource is to invest in the target country company that holds them. In these companies the need for complementary inputs appear to be a dominating over considerations concerning post- investment costs of restructuring and integrating the Balkan company.

The food and beverage (6), textile (9), tobacco (1), mining (1) and construction material (1) companies' managers that formed joint ventures, in their interviews stated that they are strongly depended on local inputs at the time of the initial investment in the Balkans since transportation costs for raw material were high and trade barriers inhibit international trade at that time. Even to supply the local markets, they needed access to local raw materials. Thus, they preferred to form joint ventures. In this case, a joint venture simply provided a concessionary right to exploit a resource.

Managers from food and beverages companies (6) and textile companies (9) reported that under conditions of systemic upheaval access to essential and often scarce material inputs was eased by forming joint ventures, thus inheriting local networks, which enjoy privileged links with primary materials producers. In tobacco companies (1) the managers reported that the partnership with outdated processing plants translates into access to the commodity resource that these plants are processing so they acquired access to physical plant, expert labour and links to tobacco growers.

8.4.5 The Effect of Sales Promotion Expenditures on the Entry Mode Choice

The explanatory company- specific variable ADVERT performs as it was expected. The sign of its estimated coefficient from table 8.1 suggests that Greek marketing intensive companies are more likely to prefer acquisitions. The reputation of the expanding companies is affecting the choice of entry mode. Thirty- one managers of the companies that preferred to acquire a Balkan company reported that their companies invest heavily in advertising to obtain a good reputation. This process and experience of reputation building is time consuming and uncertain. This process and experience, which are often applicable to new markets, may be difficult to communicate to a joint venture partner. Full ownership is a way to avoid having to persuade the partner that they choosing the optimal level and mix of advertising expenditures. High investments in reputation do not automatically lead to a good reputation. Each minor deviation from the behaviour that they prescribe may have a disastrous impact on their reputation. Therefore, these thirty-one companies, according to the opinion of their managers that invest heavily in brand-name capital will avoid free riding by other companies. High- control entry modes are considered the most efficient governance structures in situations where the risk of free riding is high.

All the Greek companies' (60) that preferred to acquire a Balkan company, reported that in general their companies opt for that entry mode so that they will take control to protect brand names from degradation by free- riders or to prevent the local operation from using the names in an inconsistent manner thus diluting or confusing the international position of the brands. Although according to eleven managers of food and beverages companies some heavily advertised products tend to be unsophisticated goods, which local agents are capable of handling, making low control appropriate, yet heavy advertising does make free- riding likely and control more desirable. Therefore, a transaction cost theory of entry choice is supported, favouring acquisitions for the purpose of brand label or product adaptation.

According to the managers' statements, their companies have set up operations in the Balkans in order to exploit domestic proprietary advantages due to domestic partners' brand name and networking for distributing their own brand names. Managers from the tobacco (5) and food and beverage (19) companies reported that they choose to acquire a domestic company since they are entering mature industries, where established brand names are an asset, and differences in language and culture reduce the benefits of using their Greek name in the Balkan markets.

All the sixty Greek managers in the acquisition category agreed that marketing and advertising skills are often the basis for the industry specific advantage. While local companies are expected to have more intimate knowledge of local customs, the Greek companies are more experienced in using mass advertising, in product packaging and promotion, and in sales force management. Balkan managers suffer shortages of necessary skills, especially in the marketing and commercialisation fields.

8.4.6 The Effect of Gross Investment in the Investing Company in the Entry Mode Choice

Regarding the capital intensity (INV), there are significant differences among ownership preferences. Companies operating in capital- intensive industries tend to prefer joint ventures as opposed to acquisitions and greenfields. Our findings suggest that holding everything else constant, the resource commitment associated with investment intensity may out-weight the potential effect on the subsidiaries' profits and, as a result, Greek capital- intensive companies tend to prefer joint ventures. The more capital intensive the company in question, the higher the cost of wholly owned subsidiaries. In capital-intensive companies, it is more cost effective to establishing a joint venture company in the Balkans.

8.4.7 The Effect of International Business Experience on the Entry Mode Choice

The explanatory company specific variable GEOGR performs as it was expected. Internationally experienced companies prefer to acquire a Balkan company. The reason according to the manager from a food and beverage company is that his company 'was motivated by survival instincts thus opt for an acquisition to quickly counter the potential loss of regional market share to other foreign companies. The threat and costs associated with potential loss of regional market share to competitors would be greater than the additional costs of assimilation of new routines into the overall corporate system, as would be necessary under an acquisition. Since we are having great international experience we are able to bear the risk and management responsibility associated with an acquisition and to integrate subsidiaries of diverse managerial nationality, and thus we find it less compatible to form a joint venture to share the risks'.

However, the explanatory company specific variable GEOGR has a statistically negative sign for the greenfield choice. Companies with international experience choose an organisational form that provides opportunities to learn about the local environment while at the same time serves to minimise their risk exposure. Although, a greenfield investor can minimise the risk exposure of its investment, yet it has less opportunities to learn about the local environment. On the contrary, an investor that has acquired a local company has immediate access to market information. We have to keep in mind, that besides the production units, the investors in the acquisition category had the opportunity to take advantage of the market knowledge, networking, distribution systems and experience of their local partners, assets which are very much needed in the Balkans and they are not easily available to greenfield investors.

International experience would lead to better capabilities to manage and integrate an acquired company. In their internationalisation process, companies would make incrementally stronger commitments along various dimensions. As we have already argued in the previous chapter knowledge of foreign markets is experiential knowledge, which cannot be taught. It can only be acquired through experience and active involvement in foreign markets. Such knowledge is essential for resource commitment because it enables recognition of business opportunities and reduces market uncertainty. Therefore, past commitment and accumulated international market experience determines current activities as well as future resource commitments and involvement on a high level. Therefore, our findings support that a company with greater international business experience is better able to bear the risks associated with an acquisition and to integrate acquired foreign companies of diverse managerial nationalities into the parent's systems. With international business experience, investors build the capabilities necessary to restructure and integrate acquired companies. These are particularly important in the Balkans because acquirers become involved in the restructuring of formerly SOE, which require changes of their organisational structures.

Greek companies with related experiences can organise a given transaction at lower costs. Experienced companies can share their resources, such as international management cadres and organisational capabilities, across operations. Their experience reduces costs of internal organisation, and thus facilitates internalisation. Hence, the marginal costs of an additional entry are lower. Eighteen Greek managers of acquired companies in general agreed that they choose a high ownership venture to satisfy their strategic need to coordinate activities on a broader geographic basis.

Research has suggested that such companies will or should be more concerned with international strategic position than with the transaction costs associated with a given market (Porter and Fuller 1986). According to the Greek managers of acquired companies though joint venture arrangements may be more appropriate for low potential markets (at least in the short to medium term, like the Balkans) from a risk reduction perspective, they may not allow the strategic control, change and flexibility that are needed to secure long- term competitiveness. However, as managers from sixteen acquired food and beverages companies and from thirteen financial services companies that we have interviewed stated that they were concerned that the presence of joint venture partners could create an impediment to strategic consideration. Their motivations could be different with that of the local company, which can lead to significant difficulties. That is why they demanded to have their own nationals in key positions, which is easier to achieve via ownership than negotiation. By acquiring a domestic company, they further reported, they could gain competitive advantage by exploitation of the strategic options provided by integrated operations. They could spot opportunities and threats that may be beyond the horizon of individual operations. They could also bring the full weight of their resources to bear on selected competitors or markets, shift resources across national boundaries very easily, and they could use the experience gained in one country in another where it may be relevant. In addition to the above strategic advantage, the managers of the above companies said that they preferred complete control of their foreign operations because overall profit maximisation requires that their foreign affiliates be tightly subordinated to their companies in Greece and all over the world.

8.5 Conclusions

The majority of the Greek companies in the Balkans prefer mostly acquisitions (60 companies), while the preference for joint ventures and greenfield is the same (31 companies). Although the existing literature in transition markets suggests that acquisitions are confronted with many challenges that incur high transaction costs (Jemison and Sitkin 1986, Bouthers and Bamossy 1997, World Bank 1996, Newman 1998, Meyer and Bjerg- Moller 1998), yet acquisitions is the most popular choice of Greek companies expanding into the Balkans.

Within organisations, hierarchies replace prices as coordination mechanisms. Management coordinates individual activities, gives directions and monitors performance. Many of the activities revolve around the collection, communication and evaluation of information. The costs of managing across borders exceed those of a national company. Firstly, this is due to specific administrative costs of international production, and secondly, monitoring is more costly. However, from our data analysis we show how Greek companies may reduce these costs of internal organisation if they can utilise economies of common governance and international business experience. Thus, by looking at the findings companies that preferred acquisition utilise economies of common governance, accumulation of international business experience, thus reducing the internal transaction costs.

While the resources or opportunities in the Balkan markets exist, the ability of each Greek company to draw resources or make use of the available opportunities is constrained by each company's individual company conditions. Greek companies will thus choose different market entry strategies in the Balkans based upon their resources and capabilities. Our main proposition here is that companies with greater resources and capabilities to operate in international environment are more likely to reduce the uncertainties associated with investments in new foreign markets as well as transaction cost risks.

From our data analysis, it appears that Greek companies do exert more control as proprietary content increase. This implies that Greek companies tend to reserve proprietary knowledge for entry vehicles they control completely. High control is more often employed for technically sophisticated products, which tend to have higher proprietary content than unsophisticated products. Specialised knowledge comes into the open market as the innovation diffuses. Over time, transaction- specific assets associated with an innovation become general purpose assets associated with a well- established product. As this diffusion occurs, we should expect to see less integration, as less administrative control is needed. Hence, older technology is likely to be handled by a joint venture, leaving new technology handled by a wholly ownership subsidiaries. A product class may have reached the mature stage in the Greek market but not in the Balkans market. Therefore, indigenous capacity is not yet widely available, and the entrant who contracts with and trains a local independent entity is creating transaction-specific assets. The relevant level of product maturity, therefore, is in the Balkans market.

Company conditions form the basis for the company's strategy and determine the company's ability to foresee and exploit external opportunities as well as to predict coming threats from the external environment. The notion that the company's current resources influence managerial perceptions and, therefore the direction of company growth is a cognitive proposition that reinforces the economic rationale that a company's resource profile will influence the company's internationalisation strategy. It is resources that limit the choice of international markets the companies may enter, and the manner in which it may enter markets as well as performance in the Balkan markets.

We found evidence that Greek companies investing in the Balkans select their ownership share based on affiliate's size and capital, R&D and technology, resource intensity of the company, labour and advertising intensity as well as on their experience in operating in foreign countries. In previous studies of internationalisation, researchers have tended to treat uncertainties in foreign markets as given and have viewed a company's international expansion as either an adaptive or a learning process in unfamiliar local environments. This perspective suggests that Greek companies investing in a country with a greater uncertainty tend to perceive a higher level of investment risk and, thus, engage in less resource commitment in FDI. This theory is not compatible with our findings for acquisitions. Based on the findings, we may suggest that Greek companies seem to transfer to their Balkan affiliates more intangible assets, especially in the acquisitions. Greek companies are more concerned with potential monitoring costs in technological intangible assets, which together with the size effect lead them to select larger ownership shares, thus preferring acquisition.

CHAPTER NINE

Company Restructuring and Adjustment in the Balkans

9.1 Introduction

The literature on ownership structure and company restructuring during the transition from plan to market consists primarily of studies based on evidence from CEE and Baltic countries (Frydman et al. 1997, Pohl et al. 1997). At the opposite, little research has been devoted to foreign companies in the Balkans. In the early years of transition, the Balkans were struggling to create their governance structure and legislation after decades of command economy system of governance. After a decade of market-orientated reforms it is important to examine whether market strategies of foreign companies have altered and to what extent.

Studies focusing on market strategies and performance in the Balkan context have been fragmented and share some common shortcomings. Most of the studies suffer from a narrow focus as market strategies are often discussed only from the viewpoint of entry modes. The studies have also often been static, therefore they have being unable to catch the dynamics of market strategies, and they have dealt with relatively small samples and mostly big companies, therefore being unable to generalize the results of company behaviour into a larger population. This chapter offers a view of market strategies in the Balkans by analysing their characteristics and their resource commitment. The aim is to obtain empirical evidence on the driving forces to company restructuring under conditions of a typical slow- transition economic region by focusing on the following research question. What kind of strategic restructuring and adaptation have Greek companies adopted in terms of organisation, production and investments?

Economists, even when incorporating the resource- based view, tend to conceptualise organisations as bundles of production factors that are combined as to optimise efficiency for given production functions and market prices. Hence organisational transformation is primarily analysed as reconfiguring the production process. That is, closing down unprofitable production lines, changing inputs and outputs, and redrawing the boundaries of the organisation according to transaction costs considerations (Corbo et al. 1991, IMF et al. 1991). In this chapter, we focus on the strategic transformation of the Greek companies in the Balkans. Strategic transformation is a necessity, crucial to long- term survival and prosperity of these companies.

The conception of transformation is broad, including changes in corporate governance, organisation structure, management, inputs, outputs, and sales. Company transformation therefore encompasses both short- run or *defensive* actions and long- run or *strategic* measures. We have decided to focus mostly on what the existing literature in transition economies calls *strategic adaptation*. The motivation for focusing on this aspect of company behaviour is that defensive adjusting essentially takes measures that seek to reduce costs and scale down business activity. Defensive adjusting is limited to the cost-cutting activities of companies therefore it does not as such necessarily imply the existence of a strategy for reorienting companies' activity under the new economic conditions. The strategic component of adjusting in the Balkans is defined by a thoughtful business project often implying a change in the production profile and a technological breakthrough, usually necessitating investments in new activities. By studying strategic adjusting, we aim to identify the development of marketing strategies, reorganisation of production and intensity of investments. In table 9.1, we have summarised the four areas that will be examined in relation to the strategies of the Greek companies in the Balkans. Here the term *adaptation* is used to refer to actions taken to change the structure of the company along four dimensions: internal organisation, employment, output and investment. Using adjusting criteria such as adjustment of employment, change of product mix etc., this research takes an interest in the impact of different forms of ownership. The following four dimensions include 11 variables, which are listed in table 9.1 and are defined and explained in chapter 5, section 5.5.1.

Table 9.1 Aspects of strategic adaptation process in the Balkans

Organisation:	Product Markets:	Labour:	Investments:
1. Providing independence to the subsidiary	1. Export products to foreign markets 2. Upgrade existing products. 3. Develop new products 4. Establish new production facilities 5. Buy new equipment	1. Corporate downsizing	1. Development of new technology. 2. Training the workforce 3. Capital investment programme 4. Establish distribution network

Because of the inefficiency of factor markets in the Balkans, companies able to attract resources have the opportunity to create competitive advantage. We look at this process of resource development starting with downsizing and then progress to upsizing. How can organisations, move from downsizing to strategic restructuring? We argue that changing the organisational framework, and therefore the incentives facing investors, has a major impact on company behaviour. All the Greek managers (122 managers) agreed that their Balkan subsidiaries needed to acquire new capabilities to be able to compete successfully in the new economic environment. They need to raise capital for new investments in highly imperfect capital markets.

Furthermore, all the managers reported that in order to move the company to a new growth path, it was necessary to develop new products and processes and to enter new markets domestically and abroad, by developing new tasks especially in the areas of marketing, technology, human resources and finance. These were more far-reaching tasks summarised with the term *strategic adaptation*. In addition, they reported that they had to redefine their internal organization and the modes of interaction between their companies and the Balkan organizations.

9.2 Challenges of Company Transformation in the Balkans

After interviewing companies (31 companies) that formed joint ventures with Balkan companies or acquired a Balkan company (60 companies), we have formed a clear picture of the typical Balkan SOE. Sixty- one managers during the interviews reported that their domestic partner in the Balkans had excess employment, excess inventories and an uncompetitive product portfolio. Balkan companies were highly integrated both vertically (due to high transaction costs of inter-company-relations) and horizontally (due to the focus on economies-of-scale). According to the above 61 Greek managers, Balkan managers were experienced in using relationships with political authorities, notably the communist party and the central plan authorities to the advantage of the company. The real existing socialism required companies to engage in informal interactions with each other to overcome shortages. Therefore according to the Greek managers, the Balkan managers have developed considerable political networking skills, which they continue to utilize, but lack experience in managing in a market environment.

Of major overall importance was the choice between adapting environment in the host country and working toward changing it. The decision was a function of the time horizon and resources of the companies. When a long-term perspective was used, all the Greek companies admitted that they tried to pursue a strategy of altering the marketing environment step by step in order to move it closer to a functional market economy. Such an approach, however, required an understanding of current societal weaknesses. All the managers agreed that emphasis was placed on the need to go beyond purely commercial criteria in decision- making, by considering the long- term social and economic repercussions of their actions.[1] They were building on maintaining regional brand identification and seeking to extend their products to a significant population segment on a step- by- step basis. Therefore, the short- term focus of all the companies in our sample (122 companies in the FDI category) was to maintain price segmentation strategies, but the long-term focus was the introduction of popular Greek brand names to a market that previously had little brand- name orientation.

[1] In the Balkans, the economic, social and political dimensions differ in major ways from the environment Greek managers are used to at home. In light of the transitions taking place, the opportunities for change are constrained by decades of ideological pressures fundamentally opposed to the core aspects of a market economy.

The challenges for all companies in the Balkans, according to their managers, were threefold. First, develop market- based concepts for the organisation. Second, learn to reassess their position continuously. Third, develop new structures of control and power within the organisation. To implement this new management, they need knowledge that is not readily available. Managerial knowledge is not available on markets as it is of a highly experiential and tacit nature.

All the Greek managers (122 managers) have addressed the weaknesses of their Balkan affiliates to adjust to the changing environment and the changes needed to transform them to organisations successful in the new competitive market- led environment. All domains of a company are addressed as having major weaknesses compared to Greek standards. Companies in the Balkans plunged into the market economy with a bundle of resources brought together to serve the needs of the central-plan economy.[2] This bundle of resources, while serving survival under socialism, is profoundly different from the requirements of a market economy.

Acquired companies and joint ventures therefore have to reconfigure their resources and learn to operate successfully in the new context. According to the opinion of the managers in joint ventures (31) and acquired companies (60), the local companies did not have appropriate resources to change and take advantage of new opportunities. Because factor inputs, including management and capital, are not easily available, they (Greek companies) had to commit in developing new resources, including financial resources. Because of shrinking markets, local companies have significantly reduced financial reserves, therefore making the resource commitments of Greek companies very appealing and very much necessary. Even with adequate financial resources, companies also need to upgrade their existing capabilities with particular emphasis on the human capital.

[2] Resources were allocated in part in implementing the central plan, and in part through unintended incentives created by the plan regime.

All the managers in joint ventures (31) and acquired companies (60) revealed to us during the interviews, they had to invest heavily in the new ventures, as their partners' contributions did not meet their expectations. Problems with slow decision making and conflict over the original agreement were mostly focused on decisions regarding the product strategy and export orientation of the company. All the managers during the interviews admitted that two were the most profound examples of conflict between the two sides. The first example of conflict is over the initial agreement about the transfer prices for products or components bought from or sold to the investing partners, which are part of the Greek companies' network. In all the cases, the Balkan partners insisted on working with Balkan suppliers whose quality of materials and terms of business, were not approved by the Greek partners.

The second example of conflict is that in many cases the partners' decision makers perceived the need to upgrade the existing products and serve the existing markets as more important than developing new products and serving new markets. A Greek manager of a tobacco joint venture company that we have interviewed reported 'that the local partner's attitude was a result of his knowledge about the international market and the fear of expanding. He was feeling more secure to serve the domestic and- or existing market segments that he knew and control rather than going international and competing with bigger and stronger competitors or launching new products serving new market segments'. According to the same manager, it took him 'a long time to change the point of view of the local partner and make him realise the competitive position of the company will not strengthened by operating only in the narrow domestic market'.

All the Greek managers (122) suggested that productivity advancement often required plant consolidation, reduction of the number of products manufactured, adaptation of capacity of machine assets and employees to demand, reduction of inventory and input costs by switching to suppliers of western standards. Managers from financial service companies (13), mining companies (5) and food and beverages companies (25), addressed necessary changes in the organisational structures and processes to improve the efficiency of the organisations, suggesting a change from the typical functional to a divisional structure, flatter hierarchies and decentralisation by offering more independency to the local decision makers. The hierarchical- bureaucratic structures were inadequate under the new economic conditions.

The creation of a competitive market environment is a prerequisite for company restructuring. However, during the interviews with the Greek managers, all the managers explained that the environment of the Balkans features some serious deviations from this condition. In particular they said that a number of specific market imperfections emerged which turned out to be obstacles to the process of adjustment. Some of the transitional market imperfections are inherited from the period of central planning (i.e. weak banking sector, entry and exit conditions in an industry). Others came forth in the transition phase itself, reflecting specific economic conditions (corruption, bureaucracy, poor legislative discipline, the effects from price and trade liberalisation).

All the Greek managers argued that that market imperfections should not be considered as a major obstacle to company restructuring in the transition to market economy since imperfections were widespread in the Greek economy until the early 1990s, where the scope and scale of market imperfections was such that they were dominated the market in which we operated. As a result, Greek managers believe that their companies were not distorted as much as their European competitors and hence had better market orientated adjustment.

Before referring to the evaluation of the long- term behaviour of the companies, two key legacies of short- term responses that appear to be critical for the success of long –term efforts of restructuring should be mentioned. The first of these is the importance of maintaining profitability in the first years of operations. All the managers (122) believe that remaining even marginally profitably in the first years appear to have greater progress in their long- term transformation and performance, since by incurring significant losses early in the transition, it would be difficult to turn around the fortunes of loss- making companies.[3] In the early years of the transition to a market economy, Greek companies experienced severe demand and price shocks. The period of 1989-1996 was described from thirty- three managers as the most critical years to maintain profitability in order to survive in the following years. How they responded to the short-term shocks proved to be critical for their long-term survival. The quality of their short-term responses determined many of the factors that relate crucially to their ability to restructure in the longer term. Managers from all the profitable companies (89) in the Balkans unanimously agreed that the companies that failed to respond quickly ended up with debts and negative cash flows, making the restructure process looked impossible. At some point, short term responses begun to accumulate into a long term trend, and therefore, the sooner a company was able to shape its short term behaviour to conform to its long term strategy, the more likely was to be successful. This illustrates the path-dependent relationship between a company's response from the early stages of transition and its ability to develop and implement strategies for restructuring and survival in the long- term.

Seven managers from profitable companies expressed the opinion that one of the reasons that some Greek companies were unprofitable is that these companies were making passive responses to the pressures of transition, by having little, slow or no adjustment to their levels of output and input use despite the sharp decline in demand and the large changes in input and output prices. As would be expected, this passivity had negative financial consequences in these companies. These companies had smaller profits or larger losses than other companies, and, therefore, they tended to accumulate debts, often in the form of payment to suppliers or to workers.

Demand for products from former socialist countries had declined, and the Balkan companies were forced to find new markets in Western countries with high quality standards. Lower trade barriers meant that they faced increased competition from

[3] Indeed, as we will see in the next chapter, 33 companies were unprofitable in the Balkans. Fourteen companies incurred significant losses in the first 2 to 3 years of their operations and they have not

imported products from other countries, especially from Italy, Greece and Germany. In addition, the Balkans experienced severe economic recessions, which lead to lower domestic demand. In many cases the sales revenue was less than the cost of materials used. A manager from a pharmaceutical company reported that 'if these companies could not restructure their operations, they were unlikely to survive'. Therefore, one fundamental measure of restructuring is whether companies were able to become profitable in the new economic environment.

The conditions of demand and supply changed abruptly in the Balkans. Changing relative prices alone required major adjustments in production processes. Managers from the textile (8), pharmaceutical (2), food and beverage (23), petroleum (3) and electronic components companies (4) reported that the costs of raw materials, labour and capital rose 15% above the inflation rate on the average, whereas demand fell for many goods because of increased competition. Even the most profitable affiliates would hardly be able to avoid temporary reductions of output while adjusting to the new market conditions. Reorganization of the production, such as changes of the product mix and an adaptation of inputs, especially labour was required. The most common response by the above forty managers to the replacement of state orders by a product market has been to create a marketing capability in the organisation and to adjust to a more profitable product profile.

The second finding about legacies has to do with the clarification of ownership rights to the company. According to the responses by sixty- one managers, in those cases where clear ownership rights were established early on, managerial responses could be more active, more comprehensive and more successful. According to nineteen managers from the food and beverages companies, although they had the ownership and the management of the production facilities, the operations of the marketing and the retailing departments was sometimes jointly carried out as a demonstration of good faith and trust, therefore leading to conflicts of interests in many occasions. The same

---

managed to turn around their fortunes, thus remaining unprofitable.

managers further reported that the Balkan managers did not view the product and market strategies that they designed as credible. Therefore, they preserved with old marketing policies, by using the influence they had on the employees, input suppliers and domestic business partners. Such failures by the Balkan managers to accept the realities of the transition and of the need of a new approach to the commands of a market economy, where the demand for their products is shaped by the demand of the customers, resulted in time lost waiting to launch new products prior to the launch of competitors' products. This failure has also resulted in the waste of inputs and resources that were used to either produce products with low demand, or improve the attributes of products that had no significant growth potential.

We have to take into consideration that the absence of greater competition gave some companies an oligopoly position in the local market and, hence, monopoly rents. According to fourteen managers from financial services companies and three managers from the telecommunications companies, sometimes the presence of an oligopoly simply shielded the companies from the pressures of the market so that they can survive even with minimal responses to the market. Oligopolies were less adverse to the pressures of hard budget constraints and market discipline, meaning adjustment and restructuring were less vital for survival, at least at the initial stage. Although the oligopoly status is viewed as a counterpart of competition, and has a negative effect on restructuring sometimes, however, many of these companies were not taking fast active steps to secure their oligopoly powers.

Greek managers from all the companies involved in this study reported that adjusting was even more complicated process than deciding upon entry mode strategy. No matter which entry mode they choose, creating a management and operational structure that can operate in a transition environment requires the continuous employment of new resources and skills, as well as the flexibility to shape the new environment according to the available resources.

Balkan companies in which Greek companies have invested in and whose exports were directed toward the CMEA suffered a relatively abrupt demand shock as the CMEA collapsed. But the magnitude of the industrial output declines in the Balkans (see table 3.3.) was such that virtually all companies faced a sharp fall in demand. Despite the belief that it was the so- called heavy industry of the region that was overdeveloped, managers from consumer orientated sectors such as textiles (9) and food- processing companies (13) said that they suffered comparable, if not greater, demand shocks as consumers' incomes fell. Regional factors played an ambiguous role, with companies located in distressed areas of high unemployment facing serious obstacles but according to twenty five managers at the same time their companies benefited in their relations with the workers and with local authorities due to the desire of the latter to keep companies operating.

Access to markets is generally a crucial factor due to loss of former markets in the CEE. The collapse of previous trading markets resulted in disastrous consequences for many companies in the region. According to the managers in the food and beverages companies (13), tobacco (2), mining (2), textile (6) and construction material companies (6), the Balkan companies were not prepared for changing their market orientation toward developed industrial countries. Any measures taken to help companies to get access to new markets are crucial for survival. The same managers further reported that they were interested in assuring the success of their companies and provided useful help in getting orders from buyers from Western Europe. Access to new markets was impossible however, due to technological backwardness of the Balkan companies. Rapid technological renewal was required in order to meet the requirements of new markets. These technologies were often not in the forefront of technological progress but upgraded and improved the capabilities of the local companies.

Managerial skills at individual companies did appear to be important in determining how companies responded to these shocks. Eleven managers from joint ventures reported that some Balkan managers did not view the transition measures as credible, and therefore they preserved with old business policies, especially in the areas of product development, raw materials procurement, and labour issues. Such failures by the Balkan managers to accept the realities of the transition and of the stabilisation measures that were introduced by the Greek managers were often accompanied by efforts of the Balkan managers to resist the introduction of new ways of exerting outside influence over the company, by mobilising the local labour unions and political parties.

Following market liberalisation, much of the industrial structure was rendered economically obsolete, raising the opportunity for new investment. According to the opinion of sixty- one managers, investment returns over the medium term could be particularly high for those investments that facilitated the restructuring of existing companies and which enable these companies to enter new markets. Such investments are central to long- term growth, as in mature market economies. The introduction of new technologies and processes and the subsequent adaptation of products, are critical in assisting growth.

An almost universal complaint by the managers of acquired and joint venture companies is the absence or underdevelopment of a wholesale distribution network. All the Greek joint ventures and acquired companies attempt to overcome this by investing to establish one. According to the experience of seventy- four Greek managers, distribution channels were often fragmented, with small retailers accounting for a large share of consumer markets. Greek managers reported that, reliable marketing information was scarce. Channels of mass communication were less developed and less effective where consumers prefer to rely on personal experiences. Therefore, the above seventy- four managers suggested a need for high distribution intensity and multiple marketing partners, rather than exclusive distributors. According to the resource- dependency approach, Greek companies should prevent themselves from becoming dependent on their external environment. Especially, the companies that control the distribution channels in the Balkans have the power to create situations of unilateral dependency. To avoid or reduce unilateral dependency, the above seventy- four Greek companies reported that they tried to keep some control over their external environment by building up relationships with multiple distributors and other companies in the various stages of the value- chain or by integrating vertically and bring other stages of the value- chain into the organisation. The above seventy- four Greek managers generally believe that by improving market access, it would allow them to learn from customers therefore more efficiently improve their existing products. Better market access and expanded sales based on improved products may enhance the organizations' capacity to learn and therefore its ability to expand further, eventually developing new capabilities and new products.[4]

Socialism did not necessarily reduce technical capabilities of the labour, but company separation from the customer severely impeded their ability to adapt to market needs. That finding reinforces the urgent need for greenfield investors to overcome a barrier of the past and invest in distribution networks if they want to successfully adapt to the needs of the market. No market networking and no previous experience of the local markets make this strategic commitment quite necessary according to the managers of greenfield companies. The above seventy- four managers reported that these inadequacies compounded by the presence of bottlenecks at various internal and external border and customs checkpoints, where graft and inspection slow traffic even further. Therefore, the shepherding of a consignment of goods by an experienced distributor, based in the recipient country, is a critical process, which safeguards timeliness and regularity of delivery, quality and even integrity (protection against theft).

A critical determinant of acquisitions and joint ventures' performance appears to be the control exercised by the parents over their subsidiaries' activities. All the managers in the joint ventures (31) and acquired companies (60) expressed the concern that insufficient or ineffective control over the subsidiary can limit their ability to coordinate its activities, to efficiently utilise its resources, to effectively implement its strategy and

[4] The above argument of the Greek managers matches Ansoff's (1957) suggestion that companies grow first via market penetration and later via new product development, as well as our discussion about the

resolve the disputes that invariably arise when two parties pursue their own interest. The above sixty- one managers further reported that by exercising control over some or all of the activities of the Balkan subsidiary protect them from premature exposure of their strategy, technological core or other proprietary components to outside groups, even to their partners who might act as competitors in the future. Even if patents protect the products or processes, companies may nonetheless fear damaging *leakage* of unprotected innovations or know- how if shared with parents. Such disclosures may have serious effects on the competitive position of the Greek companies, possible creating new competitors or otherwise limiting the parents' overall efficiency. However, organisational transformation of the Balkan companies involved changing existing routines, which often inhibited organisational change.

The Greek managers unanimously agreed that the transformation and integration of acquired and joint venture companies is subject to tensions between radical change to match the strategy and corporate culture of the Greek investors, and preserving what is valuable in resources and cultural attributes in the Balkan organisation. The central plan regime was based on a hierarchy in the whole economy that established quantitative output targets with few incentives to provide quality and customer service. Workers and managers have therefore developed considerable experience in shirking and the underlying routines and attitudes persist in the transition, according to the opinion of the Greek managers. Finally, all the Greek managers agreed that the socialist experience has equipped employees with no knowledge on how to adequately interpret the information acquired to make the optimal decisions on opportunities to pursue in a market economy, and where to find needed resources therefore requiring a close monitoring. Indeed as seventeen managers in joint ventures (4 food and beverages, 3 telecommunication companies, 2 financial services companies, 6 textile companies, 2 furniture companies) reported that undertook major changes in their management structures. One of these was to separate strategic decision making from the management of the day- to- day operations. In the new business environment, Greek top managers had to devote most of

---

marketing strategies of the Greek companies in section 9.3.1.

their attention to strategic issues having to do with the companies' long- term survival. Therefore, middle and lower level managers had to make decisions regarding production independently, something that local managers in the Balkans were not accustomed to as Greek managers have reported.

The importance of managerial autonomy can be viewed in the light of what all the Greek managers in acquired (60) and joint venture (31) companies called the Balkan mentality; the Balkan managers believe that the Greek managers want to implement changes over their companies by shock therapy, which reminds the old Stalinist mindset of cleansing society. In addition, all the Greek managers in acquired and joint venture companies reported that they had also to consider the mentality of the traditional local managers who see foreigners as a threat to their survival, fearing that a foreign company might simply strip assets such as the company's position in domestic and CEE markets.

In addition, Greek managers in the acquired and joint venture companies reported the lack of capable middle- level management with an ability to adapt to the realities and specificity of the new Balkan market place. The Balkan management culture was unable at the beginning to assimilate in a timely fashion the tactics of economic penetration as this applied in the context of the Balkan environment. Furthermore, much of the co-ordination and integration in the Balkan venture was done by bureaucratic control. That is, by sharing the elements of the plan with the Greek partners on a need to know basis. Indeed, thirty- four companies reported that in the first 2-3 years of investment in the Balkans, horizontal communication between the two sides was not encouraged. Therefore, it was very difficult for any sort of organic control system to emerge. However, this managerial approach was not that much related to the Balkan *patriarchical* management style[5] rather than an effort of the Balkan managers to refrain Greek managers from practising new management policies. Yet, we have to mention that the principal factor responsible for the degree of autonomy to the new venture and the

[5] A problem strongly discussed by the respondents was the one of the structure of *patriarchical* management of most Balkan companies and the lack of collective processes of strategy formulation.

delegation of authority to domestic managers, according to the opinion of the Greek managers is that this level of autonomy was necessary to domestic partners as to manoeuvre more easily through the Balkan mentality of the transition process. The business networks of their partners proved to be invaluable during the short- term adjustment, since they maintained a profitable level of sales, a customer base that enabled us to build on that customer base and increase sales, according to the managers.

Eleven managers of greenfield companies (32% of greenfield companies) believe that their companies could yield higher long-term benefits by allowing for some degree of independence in managerial practice and organizational arrangements of their affiliates. Many local practices developed and implemented by the Balkan managers were initially perceived to be inferior by the Greek managers, yet they were better adapted to the environment. Independence was needed to develop new managerial practices that are in concordance with existing cultural values, resources, and routines of their Balkan colleagues. Moreover, according to the above eleven managers, supporting local management to develop their own practices by providing their (the Greek companies') resources and experiences could lead to new practices that outperform the established ones yielding new operational and managerial best practice for the investing companies in a transitional Balkan market.

The economic and social instability in the Balkans produces ambiguity and uncertainty regarding the rules of exchange. Therefore, rules are largely emergent. The ambiguity and uncertainty makes the environment difficult to analyse. Yet, the above eleven greenfield investors believe that they could enhance their knowledge about new situations by actively and systematically searching for information. Knowledge about markets allows for better adaptation and strategic fit. Therefore, it was very important according to above eleven Greek managers to give operational autonomy to their subsidiaries in order to have a better reflection of the market. Invariably changing market conditions, which characterize the Balkan economies, increase this need for knowledge acquisition even further. The position of the greenfield investors in the previous statement was that identification of the status quo in developing product markets and factor markets is essential to improve strategic fit in the Balkans.

With access to resources of the Greek investors and local managerial autonomy provided to the Balkan managers, the affiliate may generate diversity that ultimately enhances the investors' capabilities and local presence. Maintaining diversity, however, comes at a cost. All greenfield investors expressed the concern that very high degrees of adaptation and diversity are likely to create high coordination costs within the two companies, which may undermine the potential benefits. Moreover, all greenfield investors argued that it could result in endless search for new ideas and unrelated capabilities. As fourteen Greek managers suggested organisational knowledge and technological assets had to be adapted to local cultures and standards and marketing assets such as products and brand names have to be adjusted to local consumer preferences and tastes. Since in the Balkans these *assets* and *knowledge* was not always available therefore could not be acquired locally, the above fourteen Greek greenfield investors reported that they faced high costs for transferring their resources in the Balkans, both organisational and monitoring costs.

Furthermore, all the managers (122) reported that in order to transfer knowledge and train the employees what a market environment is, they need to process the information gained from local partners, from scanning, or other means of data gathering. Managers of greenfield affiliates (31) admitted that they interpret information based on prior knowledge or frame of reference. Herein may lie a particular challenge for greenfield investors because their frame of reference would be a market economy rather than turbulent Balkan markets.

9.3 Transforming and Adjusting Companies in the Balkans

9.3.1 Explaining the Adjustment Strategies of the Greek Companies

Active responses toward the transition on behalf of the Greek companies took two forms in the product sphere. First, changes involved changes in output in response to changes in demand. The most obvious response according to the managers was to modify output. This response was most obvious in the textile companies (10), tobacco companies (4), food and beverages companies (17), construction materials companies (9), mining companies (3), electronic equipments manufacturers (4), furniture manufacturers (3), plastic products manufacturers (3) and pharmaceutical companies (2). Fifty- two managers of the above companies further reported that they altered the product mix, so that production was concentrated on product lines that had the best market potential and to reduce or abandon those with weaker prospects. In some cases, they improved the quality of existing product lines so as to improve competitiveness over other local companies. Fifty- two companies expanded their range of products during the restructuring process, and eliminated lines in which they were not competitive. This seems to indicate that these companies are adjusting their activity to the market conditions, i.e. they are flexible and easily adaptable to market conditions. At the beginning the main focus of these companies was either to follow a market penetration (17)[6] and a market development strategy (35)[7]. Their strategic orientation latter shifted to product diversification (39)[8] and product development (13)[9] market strategies. The objective, according to the above fifty- two managers was to revise their product strategy by developing new products, in an effort to differentiate their products and thereby gain some pricing power to bolster sales revenue. Growing competition, especially from imported products, prevented the launching of new competitive products at the first period after the initial investment. This period was on the average ten to fourteen months. That was the period that it was required by above fifty- two managers to decide whether the new products launch by the competitors *made a hit in the market*. Such changes in product mix were generally made within the limits imposed by current capacity and technology. The managers in general suggested that their companies typically position the new products developed in the Balkans at the upper end of the

[6] Increase sales of existing Balkan products in the Balkan markets.
[7] Offer current Greek products to new markets.
[8] Offer new products developed in the Balkans to new markets in the Balkans
[9] Offer new products developed in the Balkans to existing markets in the Balkans

market, while they position existing local brands at the lower end of the market, in anticipation of market growth with the emergence of the middle class.

Thirty- three companies only eliminated lines in which they were not competitive. Given the relatively large size, broad product range and high degree of vertical integration of the socialist companies, this restructuring behaviour is not surprising.

A second production response was to alter the input mix in response to changes in prices and availability of input. Forty- two companies (34% of the companies) took advantage of trade liberalisation to begin importing inputs from Greece and/or other western suppliers.[10] Joint ventures' managers reported that when they procured their inputs from abroad, they could gain some degree of control over the local partner by establishing a relationship where the latter is depending upon imported inputs. Foreign suppliers were seen as more reliable and whose higher quality, albeit at higher prices, was seen as lowering production costs and smoothing the production process.

The development of more competitive relations on the supply side is indicated by the extent of input purchase from the private sector, and we find sharp differences between the state and private sectors in the Balkans. Therefore, nineteen of joint ventures (16% of the companies) purchase more than one quarter of their inputs from the private sector. Acquired companies and greenfields purchase more than 50% of their inputs from the private sector. Regardless of ownership form, companies consider state owned suppliers to be in some case as good as private ones; for example forty- five (37% of the companies) of all companies in the sample in answer to question about quality and reliability but only twenty (16%) in terms of responsiveness. The reason for the low response rate in terms of responsiveness is that the state- owned suppliers frequently changed the contracts, and their restructuring often changed the output structure, prices and sales volume. All of these tends to destabilise Greek investors and impeded their

[10] 12 from Greece, 20 from the local market and from Greece and 10 from Greece and the EU. 61 of the sample companies are buying their supplies from the local market.

market adjustment. The only area in which state- owned companies were seen as better suppliers was in the provision of credit; seventy companies (57% of the companies) found private suppliers worse in the provision of credit facilities while only thirty- three of companies (27% of the companies) found them to be better. Only nineteen companies (16% of the companies) believe that there is no difference between the private and the state suppliers in terms of credit provision.

Since over- employment was endemic in planned economies, company adjustment toward market behaviour involves labour shedding. However, thirty- one managers in acquired companies reported that they had to maintain *some* of their excess employment. Their decisions, as they have explained, it was affected by labour regulations, local laws, and agreements with the companies before the acquisition. Due to the collective mentality of the socialist legacy from years of state policy that provided a strong safety net for employment, employees and managers in these companies did see downsizing as a negative option for dealing with excess employment, rather than an option for survival. Another explanation that was provided by the above thirty- one managers is that they were expecting an upturn in sales due to improvements of local demand and export growth, as well as it was difficult to find qualified labour, accustomed to our operations. Competitors and greenfield investors quite often offered more competitive salaries to attract qualified labour. As a result, they had to maintain some excess labour force. The opportunity cost for not keeping these employees was, much higher than letting these employees leave and work for a competing company.

The above thirty- one managers in the acquired companies further reported that a defensive focus on short- term efficiency, i.e. downsizing could destroy valuable human capital and employee motivation and therefore fail to realise the long- term potential of their organisation. In fact, the very capabilities that could generate continuous improvement could be lost. For instance, as the managers reported the employees could take with them their knowledge of local markets and networks as well as of the organization and its technology. While almost all managers admitted that they undoubtedly had excess slack, its complete elimination may have been counterproductive since a certain degree of slack could be an important resource for innovation, for managerial learning and therefore for transformation. Therefore, these companies have decided to maintain excess labour. The critical question in restructuring is not *how much* the companies should be downsized but *how* downsizing helps the company to develop a coherent core competence and *how* the lay- offs are managed. Therefore, we conclude that downsizing often undermines the resources and capabilities that long-term productivity and growth can be build upon. In theory, it may be feasible to separate from non-core assets and employees without damaging employee motivation, without losing valuable assets and to an extent leaves a modest amount of slack to foster creativity. Yet, in practice, the focus on short-term efficiency targets contradicts many of the long-term objectives.

The questionnaire asks whether managers regard the level of employment as being optimal, given current levels of output, capital and technology. The data reveal that even after a decade of reform, and after a considerable labour shakeout as evidenced by the large drop in aggregate industrial employment and the high and rising level of unemployment, labour hoarding remains endemic in the Balkans. Only twelve (39% of the joint venture companies) of the joint ventures believe that their employment levels are about right, compared to eighteen of acquired companies (30% of the acquired companies). The majority of acquired companies (31 companies) and joint ventures (19 companies) considered themselves as over staffed by at least 30% of their labour force.

The two main reasons as were cited above for over employment by all companies are the expectation of recovery and social factors leading by managers to avoid layoffs. Managers believe that is going to be very costly to find and train employees when the markets fully perform according to their standards. The respondents made clear that they all regard over employment as leading to financial problems- virtually none argue that the extra workers do not cause a financial burden. The findings are consistent with the view that workers' influence over employment decisions, either of a positive or negative sort, is the main reason for the persistence of over employment. The questionnaire reveals that most companies have laid off some workers. However, it is not surprise that in greenfield companies the layoffs have typically been small in scale (5% on the average). Seventeen managers from greenfield affiliates suggested that they aim at utilising the human capital of the local company. To access local human capital, acquisitions and joint ventures are more efficient because setting up a greenfield operation and hiring key individuals does not permit the entrant to tap specialised knowledge. To engage in a greenfield venture, complementary local resources are needed. This includes skilled labour. In the Balkans, labour skills are underdeveloped. Local companies employ qualified employees. Local companies are unwilling to let them go, either because they are part of their respective competitive advantages or for political considerations. Therefore, the above seventeen greenfield investors reported that they maintained their excess labour force for fear that they might not be able in the future to attract qualified labour with specialised knowledge. The largest layoffs have in fact been in acquired companies, where twenty- six companies have laid off approximately 17% of the workers, therefore improving cash flow and made revenue available for investment.

We can think of several reasons why efficient labour shedding would be more likely to take place in an acquired company. The first is the Greek owners' commitment to profit-maximisation. The second is their ability to exert authority over the restructuring process. In the case of joint ventures, the lack of clear differentiation of restructuring behaviour must be due to the fact that although outside ownership has been established, dispersed outside ownership does not necessarily lead to control of the managers, and therefore to restructuring.

Acquired companies tend to increase the number of workplaces, especially in Bulgaria (8 companies) and Romania (4 companies). To some extent, the increase in employment is due to the fact that preserving or increasing the number of jobs is stipulated as a condition in the contracts in the privatisation transactions according to the managers in acquired companies.

The emergence of skill mismatch despite downsizing and over employment is indicated by the vacancies situation. Thirty- three companies (27% of the companies) reported that they had vacancies that had remained open for more than 3 months. In fact, vacancies were the greatest problem for joint ventures, 48% of which (15 companies) reported positions that had been unfilled for more than 3 months, and smaller for acquired companies and greenfield, for which the proposition was 10% (6 companies) and 39% (12 companies) respectively. This suggests that the investors in wholly owned subsidiaries had both the incentives and financial ability to attract high- quality workers, which in turn can explain the lower amount of net employment reduction especially for greenfield investors.

9.4 Adjustment Measures Taken by Companies According to Entry Mode

An efficient way for companies to improve their resources is to invest in complementary assets (Barney 1988, Hitt et al. 1999). Competence can build on synergies created between existing and added resources. For companies in transitional economies this may include investments in distribution networks to improve market access, in production facilities to improve the price-quality relationship of products, or in new product development. Therefore, the transferred resources and commitment of the Greek partners is of significant importance.

At the interviews, all the managers of joint ventures (31) and acquired companies (60) admitted that their Balkan partners had specific resource endowments but often needed further resources in order to be competitive in the transitional environment. According to the opinion of the above Greek managers, these companies at the beginning found it difficult to compete in product technologies with companies from developed market countries, and greenfield investors that they introduced new, competitive products at the domestic market. Often, they did not have the capabilities to effectively develop and offer new and sophisticated products in sufficient quantity and quality to be competitive with companies from other countries.

Table 9.2 Adjustment measures taken by companies according to entry mode[11]

	Acquisition n=60		Joint Venture n=31		Greenfield n=31		X^2 Significance
Internal organisation	M	S.D	M	S.D	M	S.D	
Providing independence to the subsidiary	2.40	0.49	2.58	0.50	2.35	0.48	0.151
Product market							
Establish new production facilities	2.56	0.49	2.38	0.49	2.54	0.50	0.190
Buy new equipment	2.60	0.49	2.54	0.50	2.41	0.50	0.847
Upgrade existing products	2.56	0.49	2.74	0.44	2.80	0.40	0.044
Export products to foreign markets	2.71	0.45	2.51	0.50	1.87	0.92	0.001
Develop new products	2.65	0.45	2.61	0.49	2.64	0.48	0.983
Labour market							
Maintaining excess employment	2.55	0.56	2.48	0.50	2.48	0.50	0.430
Investment							
Capital investment programme	2.58	0.49	2.35	0.48	2.35	0.48	0.041
Invest in establishing distribution network	2.65	0.48	2.64	0.48	2.64	0.48	0.998
Training	2.65	0.48	2.64	0.48	2.64	0.48	0.998
New Technology	2.65	0.48	2.58	0.50	2.61	0.49	0.001

1; no resource commitment, 2; low resource commitment, 3; high resource commitment; 4 very high resource commitment

An interesting finding from our research in table 9.2 regards the level of change in products and markets. Acquired companies, greenfields, and joint ventures adjust themselves to the challenges of a new market economy by following proactive strategies such as developing new export markets and upgrading existing products as the findings of table 9.2 demonstrate. For developing new export markets, acquired companies have committed more resources than joint ventures and greenfields. On the contrary, greenfields and joint ventures have committed more resources than acquired companies in upgrading existing products. According to the managers from the acquired tobacco

[11] In all three tables, since the variables use ordinal scale, they represent related samples in mean-comparison tests, i.e. the rank of one variable necessarily affects the ranks of other variables. Therefore, Freidman test, a nonparametric test comparing the distribution of several related variables, was used. Friedman's two- way ANOVA test examine the null hypotheses that the scores in each topic come from the same population, i.e. their ranks are not significantly different. Friedman's tests were significant. For the acquisitions, the significance value is 0.068, for joint ventures 0.090 and for greenfield 0.001. These

(5), food and beverages (14), and textile (1) companies given the hard-currency shortages, goods produced in the Balkans to Western standards and sold cheaply for hard currency have a strong competitive edge, enabling companies to establish a brand name and a strong market position relatively quickly.

Greenfield investors have committed more resources than the other two types of investors in upgrading their existing product portfolio rather than developing new products for distribution in the Balkan markets. This suggests, that in general greenfield investors are mostly orientated towards a market development strategy rather than product diversification strategy. Greenfield investors have committed fewer resources than the other two types of investors in developing new export markets, and along with the higher level of resource commitment to upgrade their existing product portfolio suggest that greenfield companies focused primarily on the domestic market.

Marketing objectives of the Greek managers could be classified as defensive (defend against competition, hold position or prevent decline), steady sales growth, and aggressive sales growth or market domination. Marketing objectives differ across stage of product life cycle and economic cycle. They are also depending on overall economic and political situation in the country. Under significant systemic changes in the Balkans accompanies by sharp decline and unstable political situation, the domination of defensive objectives was reported in the case of joint ventures and greenfields, therefore focusing mostly in upgrading existing product lines as this was presented in table 9.2.

All the managers from the joint ventures (31 companies) reported that defensive objectives were accompanied, by the internal focus on productivity improvements and cost reduction and by entering the existing market segments with upgraded products before the competitors. By entering these markets before competitors do, could yield an advantageous investment position and high payoffs. According to the unanimous

results enable us to reject the null hypotheses and to conclude that the differences in the ranking of the variables were substantial.

opinion of the managers in joint ventures, this pattern of response was mainly connected with the recession in the Balkans and unstable legal environment. On the contrary, in the case of the majority of the acquired companies (31 companies or 52% of acquired companies) according to their managers, growth was pursued through new product development and product diversification, by expanding total market through winning market share from local or other foreigner producers.

According to thirty- six managers of acquired companies, quality improvement of existing products was a hot issue in the early stage of transformation. Low quality products and services could not be sold at newly acquired markets. In spite of it, in many occasions less managerial attention was devoted to quality development- upgrading of existing products. The managers admitted that they did not concentrate on quality issues in the first stage because it is a longer process requiring constant attention and supervision, contrary to the process required for the development and production of newly developed products. As two managers from beverage companies explained there was no point for spending good money for old bad products. This attitude on behalf of the acquired companies is attributed to their belief of positive future market expectations connected with the economic reforms, though they proceeded slowly. However, according to thirty- six managers of the acquired companies, strategies of product development and diversification were often delayed until competition start to emerge, and market conditions were improved.

An interesting observation to make for the acquired companies in table 9.2 is the restructuring efforts (resource commitments) were equally distributed between establishment of wholesale network, training and transfer of technology. On the other hand, joint ventures appear to invest slightly more resources in establishing wholesale networks and training the employees than transferring technology. Clearly the size of the company matters in the acquisition of new technologies. Success in acquiring new technologies is linked with export intensity. The more resources an acquired company is committing to restore its export markets the more the need for acquiring new technology in order to remain competitive.[12] Looking at the results in table 9.2, acquired companies have committed more resources in reaching export markets, therefore finding new and more profitable export destinations for their products, while at the same time have invested more money in transferring and developing new technology than the joint ventures and greenfields. The lower resource commitments on technology transfers of joint ventures, compared to acquisitions and greenfields, indicates a threat from potential cheating costs from their local partners.

A common problem reported by all the companies that preferred acquisition and joint ventures, is the financial restructuring of the local company. The restructuring problems forced the managers to reduce operational losses with external financial support, to the point where these companies would either reduce their deficits over years or generate a positive cash flow. These strong measures created a conflict between the two sides, resulting a slow down in the operations. The higher capital investment reported from acquisitions in table 9.2 can be partially explained by the fact that often the investors assumed the financial liabilities of the acquired company. Financial resources are also crucial in the first stage of transition. Due to general shortage of capital in most of the Balkan companies, these companies need financial inflow for survival. The incoming capital helped the necessary restructuring of the financial base of companies. The capital provided by the Greek partners helped twenty- nine acquired and ten joint venture companies to get rid of loans and use the capital for financing operations. Besides the necessary funds for financial restructuring, sixty- one Greek companies (19 joint

[12] Competitive export expansion is considered vital for successful economic transformation in the Balkans, whose domestic markets have limited capacity and are not sufficient to support domestic producers aiming at competitive advantages based on economies of scale and scope. At this point, we should bare in mind the market characteristics of the previous economic regime, which is that all the CMEA countries were considered as a unified market, serving the need of each other. Therefore, the market dynamics of each individual country do not serve any purposes of any kind regarding economies of scale and scope. The Balkans belongs to those small transition economies that experienced the strongest shocks of transition and the deepest transitional depression. The high dependence of the CMEA markets made their large producers extremely vulnerable to the external shock associated with the loss of these markets. This indicates the existence of serious impediments to the Balkans exports during the initial transition period. These barriers stem from different sources such as the inherited trade specialisation of countries, geographical location, macroeconomic situation and the economic policies pursued in the transition periods, as well as the process of company reform and microeconomic adjustments.

ventures and 42 acquired companies) provided additional working capital to meet export orders and redundancy payments to employees. According to the unanimous statement of the Greek managers, the Balkan mangers were reluctant to take the latter measure because they are either elected directly by workers or because of strong unions. Though redundancy payments were equal to six months of pay on the average, this did not make it easy to downsize the labour force.

In all other categories, there are not great differences in the amount of resources committed on behalf of the companies under the three different ownership types. This observation once again confirms the belief of the managers from all the companies involved in this study that we have presented and analysed earlier in this chapter that restructuring was even more complicated process than deciding upon entry mode strategy, since no matter which entry mode they choose, creating a management and operational structure that can operate in an a transition environment requires the continuous employment of new resources and skills as well as the flexibility to shape the new environment according to the available resources. This is also confirmed by looking at the chi square statistics of the cross tabulation analysis in table 9.2. Looking at the chi square statistics, only four variables were statistically significant, indicating significant differences in the extent of the amount of resources that the Greek investors under the three different ownership structures.

9.5 Conclusions

Previous research by Chackravarthy (1982) in transitional economies argues that organisations will opt for a *defender's strategy*- avoiding high resource commitments- concerning companies without material or human resources. Tan and Litschert (1994) have shown how successful companies in the transitional economy of China, have opted for the strategic posture of defenders. However, our results come in pace with other authors who predicted that in turbulent environments organizations should be more proactive, adaptive, being able to seize every opportunity that comes along in the external environment (Ansoff and McDonnell, 1990).

The surprisingly high levels of commitment from the majority of Greek companies bring a new perspective into the existing theories in transition economies. However, the high levels of resource commitments come at a cost. We intend to observe their significance to the performance of these companies, in the next chapter, and how they affect it, therefore being able to see if these high levels of resource commitments can be justified in a high risk, turbulent business environments as in the Balkans.

CHAPTER TEN

Entry Mode, Resource Commitments and Company Performance

10.1 Introduction

This final chapter examines the links between entry mode and performance of Greek FDI in the Balkan markets. The area investigated is the effect of entry mode choice on subsidiary performance. We investigate whether different ownership- based entry modes have characteristics, which lead to a hierarchy of performance, irrespective of, to industry, company or country factors. This is particularly necessary and important because profitability is the outcome of many factors. Dang (1977) argues that if the market structure in host countries is competitive, type of ownership has little or no independent influence on the operating characteristics and performance of foreign subsidiaries. However, the market imperfections and absence of a competitive business environment in the Balkans invalidates Dang's proposition.

Despite the large volume of research studying the entry mode choice, few studies have linked entry mode choice to performance (Nitsch et al. 1996:30). Examples of this are the studies of Porter (1987), Janger (1980), Killing (1983), Burgleman (1983, 1985), Drucker (1974), Hill and Jones (1989). Despite these studies, few scholars have explicitly measured and compared the performance of the various international entry modes, and fewer still have attempted to develop a parsimonious theoretical argument for performance differences (Woodcock et al. 1994: 253). Furthermore, the few empirical studies that do exist have not produced consistent findings. There is considerable disagreement over which mode tends to yield higher profitability (Woodcock et al. 1994).

The concept of resource realignment is to bring in complementary resources through provision of assets or through organizational learning (Uhlenbruck and Meyer 2000). Companies in transition can benefit from their catch-up situation and import better practices and technologies that have been developed in the West. In this way, transition companies save the costs of internal development and ought to achieve major advances in productivity. Companies taken over by Greek investors have a natural advantage in accessing complementary resources. They can overcome the barriers faced by local companies with respect to financial resources, technological and managerial capabilities, and to crucial business-to-business markets. The conditions of the almost indiscriminate consumerism of the first stage of economic transition, gives way to more varied and demanding consumer preferences in the host countries. These preferences in turn demand the employment of more sophisticated business practices and the building-up of the appropriate business channels. They require the kind of investments in systems, people and infrastructure, which can only originate from that domain of companies and individuals in which superior business practices are undertaken as a matter of course. Therefore, our intention is to examine whether and how the resources provided by the Greek companies will assist the transformation of the local affiliates and contribute, positively to performance.

10.2 Analysis of the Data and Results

In this section, we examine if a statistically significant relationship exists between entry mode and performance in each subset of the data. The Pearson Chi- squared is often used with categorical variables, employing a frequency table to test the differences between predicted and observed occurrences. From a cross tabulation analysis between pairs of modes, the Pearson Chi- squared was used to test any significance of the proportion of profitable to unprofitable companies for paired modes of entry. Performance means and percentages within mode classification are shown in the following table, together with the results of significance tests.

Looking at the results in table 10.1, statistically significant differences are confirmed between acquisitions and joint ventures, and acquisitions and greenfield. The strongest result was the acquisition/ greenfield comparison, which was significant at $p=0.020$ and the acquisition/ joint venture comparison pairing at $p=0.043$. No significant difference appeared to exist between the joint venture/ greenfield modes, although the slight difference in their means was not in the hypothesised direction. Since the value of chi-square is significant for the acquisition/ greenfield, and acquisition/ joint venture, this means that the proportion of profitable to unprofitable companies is not the same for both pairs of entry modes.

Table 10.1 Performance Breakdown by Entry Mode of the Greek Affiliates in the Balkans

Entry Mode	Performance			Performance of Companies Mean Value	Number of companies
	Loss	Profit			
1.Greenfield	38.7% (12)	61.3% (19)		0.6129	31
2.Acquisition	16.7 % (10)	83.3% (50)		0.8333	60
3.Joint Venture	35.5% (11)	64.5% (20)		0.6452	31
Total					
Test	Significance	Pearson chi-squared	Significance		
Pearson *chi- squared*	0.038	1 vs. 2	0.020		
		2 vs. 3	0.043		
		1 vs. 3	0.793		

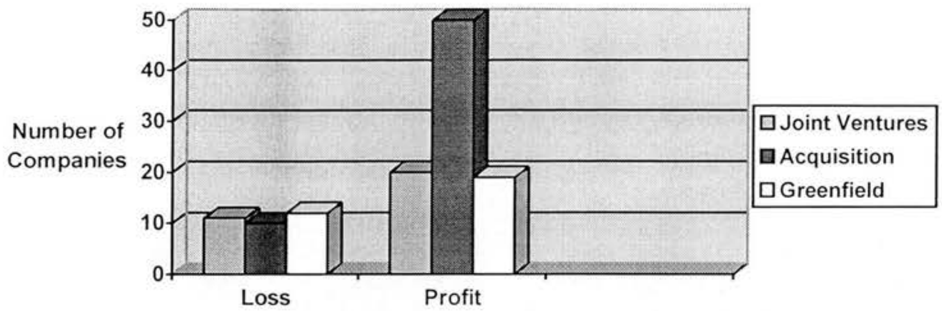
Performance mean is based on a dichotomous variable: 1 being profit and 0 being loss.

As shown, all tests were statistically significant. The chi- square test is better than the 0.05 level. Based on the results presented in table 10.1, it is appropriate to conclude that the mode of ownership is associated with the behaviour and performance of Greek subsidiaries in a fairly measurable and predictable manner.[1] The above analysis provides evidence that different entry modes have different performance levels. Our results suggest that the acquisition mode outperforms the joint venture, and the greenfield mode in terms of profitability.

Figure 10.1 provides a graphical representation of the performance distributions found in the dataset. Based on the above figure, there can be little doubt that: (i) the acquisition mode tends to have the highest proportion of profits relative to losses; (ii) greenfields and joint ventures have a mixed performance; (iii) greenfields are slightly less profitable than joint ventures.

[1] Our findings are not entirely consistent with Dang (1977) who found no significant difference between wholly owned subsidiaries and joint ventures in terms of performance and Pan et al. (1999) who found that joint ventures have higher profitability that wholly owned subsidiaries. Furthermore our results are not consistent with Nitsch et al. (1996) and Woodcock et al. (1994) who found that greenfield will perform better that joint ventures, and joint ventures will perform better than acquisitions. Therefore, there is considerable supporting evidence that international ownership- based entry modes have different performance levels.

Figure 10.1 Greek FDI in the Balkans: Performance Distribution within Entry Modes



Bounded rationality may explain why joint ventures have such poor returns. All the managers of the unprofitable joint venture companies have admitted that the managerial optimism, growing out of perceptions and opportunism, lead to fanciful assessments of the cost- benefit relationship in a joint venture situation. They perceived the foreign partner as a good- cheap opportunity and as a chance to penetrate a foreign market at virtually, no cost. In the excitement of making the deal, realistic estimates of the costs and risks of such things as managerial, technological, production integration were in many cases ignored or discounted.

10.3 Examining Causality: What Factors Affect Profitability in the Balkan Subsidiaries

In this section, we want to examine causality of performance. We are interested in the coefficients β's for the different independent variables listed in table 10.2. The independent variables are listed and defined in chapter 5, section 5.5.1. We run a simple regression of the following form: $Profit = a + b\ X$, where X is a vector including measures of restructuring. For the estimation of the dependent variable *Profit* a dichotomous dummy variable – *profit (1)* or *loss (0)*- was employed to capture differences in the profitability of Greek companies in the region. We report the results of 11 regressions for joint ventures, acquisitions and greenfields with one performance variable.

10.3.1 Examining the Affect of the Restructuring Strategy to the Performance of the Greek Companies in the Balkans

A commonly agreed perception by the managers of acquired companies is that acquired companies often employ specific resources but often need further resources in order to be competitive. They need more resources, especially financial and technical in order to compete in product technologies. Therefore, they must emphasise resource development. An efficient way for these companies to improve their resources was to invest in complementary assets. For companies in transitional economies this included investment in (i) distribution, (ii) exporting activities by finding new export markets, (iii) training, (iv) new product development and (v) capital investment programmes. Indeed, as the regression coefficients show in table 10.2, resource commitments in these five areas positively affected the profitability of acquired companies.

Table 10.2 Explaining the Profitability of Greek subsidiaries in the Balkans

	Acquisitions		Joint Ventures		Greenfield	
Variables	Coefficient	Significance	Coefficient	Significance	Coefficient	Significance
Constant	40.513	0.019**	33.636	0.039**	34.668	0.075*
Internal organisation						
Providing independence to the subsidiary	1.844	0.338	-0.244	0.849	6.752	0.074*
Product market						
Establish new production facilities	0.904	0.478	0.405	0.777	5.375	0.096*
Buy new equipment	- 1.169	0.379	0.269	0.860	3.448	0.161
Upgrade existing products	- 1.732	0.198	2.396	0.225	4.895	0.173
Export products to foreign markets	3.165	0.059**	4.035	0.086*	3.963	0.141
Develop new products	3.535	0.059**	-0.978	0.551	0.492	0.763
Labour markets						
Maintaining excess employment	- 1.285	0.301	-3.088	0.088**	-5.963	0.092*
Investment						
Capital investment programme	3.294	0.078*	1.184	0.525	- 2.921	0.349
Invest in establishing wholesale network	0.230	0.902	1.731	0.270	-0.490	0.795
Training	4.303	0.063*	2.864	0.096*	7.272	0.034**
New Technology	4.162	0.028**	4.951	0.020**	3.545	0.057*
Chi- square 29.327, df 11, Sig. 0.002, R^2 0.651			Chi- square 17.670, df 11, Sig. 0.090, R^2 0.597		Chi- square 24.084, df 11, Sig. 0.0124, R^2 0.733	

Significance level: * at 0.10, ** at 0.05

The x^2 is statistically significant, indicating that the independent variables as a whole make a significant contribution to explain the variation of the dependent variable. The above regression has a very good explanatory power. Sixty-five, fifty nine, and seventy three percent of the variability in the observed profitability is explained by the adjustment measures undertaken by acquired, joint venture and greenfield companies respectively.

Table 10.3 Classification Table

Acquisition	Predicted Performance		Correct Percentage
Observed Performance	Loss	Profit	
Loss	7	3	70
Profit	2	48	96
Overall Performance			91.7
Joint Ventures	Predicted Performance		Correct Percentage
Observed Performance	Loss	Profit	
Loss	9	2	81.8
Profit	2	18	90
Overall Performance			87.1
Greenfield	Predicted Performance		Correct Percentage
Observed Performance	Loss	Profit	
Loss	11	1	91.67
Profit	2	17	89.47
Overall Performance			90.32

In addition, from the data in table 10.3, 91.7%, 87.1% and 90.32% of the sample observations regarding the profitability of the Greek subsidiaries in the Balkans are correctly predicted in the case of the acquired, joint venture and greenfield companies respectively. For the acquired companies 70% of the companies were correctly classified as unprofitable and 96% were correctly classified as profitable. For the joint ventures, 81.8% were correctly classified as unprofitable and 90% were correctly classified as profitable. For the greenfield companies 91.67% of the companies were correctly classified as unprofitable, and 89.47% of the companies were correctly classified as profitable.

One of the aims in transitional companies was to improve product quality in order to compete more successfully on the domestic market against national products and imports, and on foreign markets, especially the demanding Western markets. This was done by developing new products. Developing new products has a statistically positive effect on the profitability of acquired companies.

On foreign markets, sixteen joint ventures and forty- four acquired companies redirected their exports from traditional Eastern markets, where GDP and imports had fallen, to West European customers. Finding new export markets has affected positively the profitability both for the acquired and joint venture companies, as the regression coefficients demonstrate in table 10.2. Finding new export markets is significantly contributing to the performance of acquired and joint venture companies since in transition economies many companies lost their traditional markets due to vanished international relations and collapse of the previous CMEA markets. The above sixty managers agreed that earnings from foreign markets in hard currency enabled them to finance imports of necessary high quality inputs. The companies perceived their exporting intensity as a credibility characteristic of their potential. Furthermore, high inflation and insufficient currency devaluations, common in the Balkans, reduced the cost advantages. Therefore, according to thirty-five managers the only feasible solution was to raise prices in the foreign markets to match the costs increases.

In characterising operational adjustment, financial restructuring proved to be significantly positive for the profitability of the acquired companies, as the coefficient of the capital investment programme variable demonstrates in table 10.2. Hence, debt restructuring and/ or equity injection was often required to correct an inappropriate debt- to- equity ratio of the acquired companies.

Beyond downsizing, the re-configuration of resources needs a pro-active approach to acquiring complementary resources, through both investment in complementary assets and organisational learning. Balkan companies had to improve their basic competences in terms of structure, systems and processes, organizational culture and human resources. The learning begun with top managers, who are often not well prepared to lead the transformation process to a market based economy. Many essential management capabilities were not developed under socialism because other skills were asked for. Therefore, managerial learning and employee training were crucial elements of the profitability both for acquired and joint venture companies, as it is shows from the positive regression coefficient in table 10.2. However, as expected the coefficient for maintaining excess labour is negative, and affects the profitability of the joint ventures.

Judging from the above significant results in table 10.2, we can suggest that achieving competitiveness and profitable performance under the new economic conditions, acquired companies have to change, not only their resource configurations, skills and technology, but also the ways of interacting with the environment, therefore finding new profitable markets for their products.

Greek companies were expected to gain (temporary) super- normal profits by exploiting their company specific efficiently and effectively to establish a good fit between strategy, structure and environment. In order to prevent the super- normal profits from being captured by competitors, companies will create resource position barriers, which will hamper the attempts to imitate their specific resources. Therefore, acquired and joint venture companies decided to invest heavily in the development of technological know- how and organisational learning. These investments have positively contributed to the profitability of the companies, as the coefficient signs demonstrate in table 10.2. According to the opinion of sixty- three Greek managers (4 tobacco companies, 22 food and beverages companies, 6 telecommunication companies, 4 construction companies, 3 mining companies, 7 textile companies, 5 petroleum companies, 4 electronic components manufacturers, 2 plastic product manufacturers, 2 pharmaceutical companies) training and transfer of new technology allowed for deeper organisational transformation and subsequent performance than general downsizing, contributing to the development of indigenous innovative capabilities.

The learning requirements for investing in the Balkans are one of the most important elements of resource commitment. To be able to adapt to the new situation, companies have to recognize the changes and understand the impact these changes are likely to have on the company. The environmental changes result in new conditions for the company to which it has to react in new ways, which requires learning.

Training of the employees in the Balkan affiliates is very importance, because management skills in the central plan system were fundamentally different, mostly due to organisational and cultural barriers. According to the Greek managers in joint ventures and acquired companies significant investments were necessary into employee training programs, which focus not only on achieving knowledge transmission, but also facilitate behaviour change. Training programmes needed to be developed which educate and assist the employees to understand the workings of a market and enable them to make better decisions. While such an approach to new market opportunities may appear to be overly cautious and expensive, it is crucial to take these steps in order to gain gradual acceptance for a market orientation in the former centrally planned economies.

Training and transfer of knowledge have significantly and positively affected the profitability both of the acquired and joint venture companies. The above sixty- three Greek managers reported that the Balkan managers were generally not well prepared to lead the transformation process because many capabilities essential in a market environment were not developed under socialism when other skills were asked for. In fact, as the above sixty- three managers reported, the required capabilities are often beyond the experience-horizon of individuals used to the central-plan system. They require not only acquisition of new techniques, but implementation of new systems and procedures as well as a change of the cognitive framework to reassess the criteria of business success and factors contributing to that success. These new capabilities require the acquisition of tacit know-how through interactive learning and training. Moreover, the organization had to change its corporate culture to shed the remnants of the socialist bloc culture and to meet the competitive challenges of the market economy. This organizational transformation involved changing existing routines, attitudes and possibly even value-systems, which often inhibit organizational change, therefore explaining the high resource commitments of Greek companies in training.

Investments in *strategic change* significantly contribute to the profitability of the acquired and joint venture companies. As we can see from table 10.2 companies improve their performance based on capital, technological, production and knowledge resources provided. Our findings show that commitment of resources on the above four areas contributes to the performance of acquired and joint venture companies and enables them to be competitive. The importance of resource commitments in these four areas by the companies is illuminated by the fact that these resource commitments are the only commitments clearly associated with better performance and profitability of the acquired and joint venture companies.

We argued that a company's lack of host country knowledge has substantial influence on performance, particularly in volatile environments, such as in the Balkans. The information required to differentiate products to match local market conditions is not readily available and would be difficult to foreigners to acquire. Looking at the findings in table 10.2, *providing independence* is a crucial component of greenfields' strategy, especially for the *acquisition* of knowledge and intelligence of the market characteristics, and has significantly affected the profitability of the greenfield investors. This is not a surprise, since the greenfield affiliate is a *continuation* of the Greek investing company therefore the Balkan affiliates has similar structures, cultures, systems and procedures, and is expected to has higher integration costs. This suggests that the integration of the Balkan affiliate was easier, and the local affiliate had a better understanding of the venture and higher levels of trust and commitment were established between the Greek parent company and its Balkan Greenfield affiliate.

All the Greek greenfield investors (31 companies) during the interviews express the opinion that are joint ventures and acquired companies that reforming Balkan companies are too preoccupied with removing corporate legacies of the past for the sake of introducing their corporate structures and strategies. This results in the wholesale importation of existing Western- Greek concepts on the organizational level, while too few efforts have been spend on developing new solutions that are better adapted to the transition context. Therefore, Greek greenfield investors encourage their Balkan affiliates to focus on learning through experimentation and the internal development of new routines and capabilities adapted to the specific Balkan context, rather than the wholesale imposition of imported Greek strategies. This would enhance companies' capabilities to operate successfully in the present environment and to react to shocks occurring in this environment.

Training allowed for deeper organisational transformation and subsequent performance in the Greenfield affiliates, contributing to the development of indigenous innovative capabilities. As a result, the risk assessment of operating in the unknown domestic (Balkan) market was reduced because the greenfield investors reported that they get feedback from the local affiliate. Furthermore, according to ten Greek managers the principal factors serving to promote active adjustment were the degree of autonomy enjoyed by the local managers and the credibility of the prospects of the restructuring. Post investment integration between the Balkan affiliate and the parent company required effective communication in order to be successful as well as to provide a vision for the acquired company. The effective communication was achieved based on the training that we provided to the affiliates' managers and employees, therefore we have avoided conflicting corporate cultures or lack of organisational fit, between the Balkan affiliate and the Greek parent company.

All the greenfield unanimously reported that are less concerned on maintaining a close eye on their affiliates, leaving more room for local decision making, therefore providing more autonomy to the local managers, who have the ability to change systems and methods quickly and at a low cost. Autonomy was an important consideration, particularly in lesser-known foreign markets where they were likely to change systems and methods as they learn the new environment. In that respect, understanding of local managerial cultures did not require extra effort, therefore the cultural distance did not become a constraint on rationality of operations.

The ability of the organization to absorb knowledge and to process information depends not only on managerial learning. It is a function of characteristics of the organization itself, notably its organizational forms and combinative capabilities. Greenfield organizations (31) improved, according to the opinion of their managers, the ability to process acquired knowledge over the years by encouraging collaboration and exchange of information within the organization, therefore employees and local managers were given greater latitude in altering activity patterns, and processes were adapted to perceived changing needs and conditions.

Providing more autonomy to local decision makers has been able to realise more of the potential contributions therefore increasing dynamic efficiency, and affecting positively the profitability of the investors. According to eight managers (four from food and beverages companies, two from the financial services companies and two from the building material companies) supporting local employees to develop their own practices by providing resources and experiences of the investing company lead to new practices that outperform the established ones yielding new best practice for the investing company, as well as providing the necessary networking.

A notable example of this are from four textile companies, which according to their managers the major initial motivation is to produce locally in order to take advantage of the local factors costs and then export back to Greece or the EU, while the local managers discover many market opportunities to sell also in the domestic market and/or export in the CEE countries.

Consequently, all greenfield investors believe that they may have more to gain in the long-run if they provide the local affiliate with a higher degree of autonomy, promote learning processes and knowledge exchange (in both directions), yet abstain from the strict imposition of best practices and short-term efficiency targets. As two Greek managers of banking institutions agreed the greater local idiosyncrasies are, the more loosely the subsidiary should be integrated with the investor, because the more important is the utilization of local assets and sensitivity to local culture. These two Greek managers believe that loose integration permits two-way learning processes instead of the frequently observed one-way dissemination of what Greek investors in the acquisitions and joint ventures consider best practice.

Eleven companies after 2-3 years flattened the organization chart by a reduction in the number of decision-making levels while they shifted from a more centralized to a more decentralized structure with a headquarters staff responsible for strategy, investment allocation, and control, and divisions whose managers were in charge of day-to-day operations. The proposed structure from the Greek partners helped Balkan managers and employees who had good business ideas to develop them into viable business by providing assistance and aid in planning the business, among other services. It was revealed by 12 Greek managers in greenfield companies (three food and beverage companies, one telecommunication company, six financial service companies, and two electronic components manufacturers) that an effective transmission of managerial techniques takes place only when this is based on joint problem solving. Therefore, it was of paramount importance for these twelve companies, according to the opinion of their managers, to study and understand the inner logic of traditional local managerial values and practices and provide the necessary training and managerial autonomy.

The resources that greenfield investors have committed in establishing new production facilities have positively and significantly influenced their profitability, while the negative coefficient for maintaining excess labour suggests that the greenfield companies are not strongly focused on the defensive short- term efficiency. On the contrary, the technological transfers of the parent company positively affected the profitability of the greenfield subsidiaries.

By providing the subsidiary with a degree of autonomy and access to investors marketing, organisational and technological skills could increase the performance in the long term by improving local adaptation and diversity of practices. Providing a degree of autonomy requires that the investing company possesses and provides via transfers distinct organisational and technological competencies, which as we can see from the coefficients of table 10.2, these competencies statistically and positively affect the profitability of the greenfield companies.

10.4 Conclusions

This final chapter examined the links between entry mode and performance of Greek FDI in the Balkan markets. The area investigated is the effect of entry mode choice on subsidiary performance. We investigated whether different ownership- based entry modes have characteristics, which lead to a hierarchy of performance, irrespective of to industry, company or country factors. This is particularly necessary and important because profitability is the outcome of many factors.

The extent to which companies commit themselves to the Balkan markets is expected to have an impact on company performance. Because of the high level of resource commitments, profitability can be negatively affected given the highly unstable business environment. In the study of and Woodcock et al. (1994) and Nitsch et al. (1996), their hierarchical propositions regarding the relationship between the choice of entry mode and performance were based on the existing literature, therefore, in our analysis we based on the above-mentioned study, therefore we are develop a similar hierarchical set of propositions to examine the operating profitability of the Greek companies. Nitsch et al. (1996) and Woodcock et al. (1994) proposed that greenfield would perform better that joint ventures and acquisitions, and joint ventures would perform better than acquisitions.

From the data analysis, the acquisition mode tends to have the highest proportion of profits relative to losses; greenfields and joint ventures have a mixed performance; and greenfields are slightly less profitable than joint ventures. Our results are not consistent with Nitsch et al. (1996) and Woodcock et al. (1994) who found that greenfield will perform better that joint ventures, and joint ventures will perform better than acquisitions. Based our data analysis it is appropriate to conclude that mode of ownership of the Greek subsidiaries in the Balkans is associated with the behaviour and performance of the Greek subsidiaries in a fairly measurable and predictable manner.

The above analysis provides evidence that different entry modes have different performance levels. Therefore, there is considerable supporting evidence that international ownership- based entry modes have different performance levels.

CHAPTER ELEVEN

CONCLUDING REMARKS

11.1 Introduction

Across South Eastern Europe (SEE), an entire new system of economic relations and institutions was designed and enacted after 1989. Transition progress was not easy. Old habits and lack of experience thwarted the transitional process. With the lifting of the Iron Curtain, SEE opened up a window of opportunity for FDI. Where foreign capital had been vilified, it was now vindicated. It was difficult to see how the region could develop without it. Indeed, inward FDI was touted by reform governments in SEE as a potential white- knight, creating new jobs, bringing new technology, and transferring sophisticated production techniques. From a Greek investor's perspective, suddenly there was access to largely untapped markets that had literally been starved of consumer goods. Local competition was almost non-existent. FDI entailed substantial risk, but potentially huge rewards as well.

However, capital inflows in the region are quite low and the attractiveness of different transition economies in the Balkans is unequal. Indeed political and economic instability, as well as overall weak performance of the Balkan countries have a negative impact on the amounts invested by foreign companies and furthermore, determine the nature, the objectives, the degree of involvement, and the modus operandi of FDI in the region.

Since the transition to a free market economy, FDI start to emerge in the Balkans, both demand and supply led. Companies seeking to expand into foreign markets have a choice regarding their modus operandi, ranging from exporting, FDI, joint ventures and wholly- owned subsidiaries among others. These strategies are distinguished by the degree of investment and the risk- investment potential. Given the above, while knowledge of the appropriate entry strategies into industrial markets and many parts of the developing world is well established,[1] this is not the case in the Balkans. Indeed, because significant FDI into this region is occurring for the first time, much can be learned about the primary motives, etc. of the Greek companies. Hence whilst previous studies on the internationalisation process were developed and tested on familiar markets, Balkans with their unique characteristics, offer unique opportunities to explore changing patterns of investment. Therefore, the purpose of the study is to try to contribute to the field of international business; the strategic aspects of a company's internationalisation decisions in the Balkan markets.

Research in the field of transition economics is more exploratory, and so are these conclusions. The main result is that determinants of Greek FDI activity in the region are in agreement with those suggested by the literature. Still some aspects of investors' behaviour are different, but they reflect the different business environment of the post- socialistic economies.

This study presents an analysis of Greek FDI in the transition economies in the Balkans, as well as an analysis of the economic environment and privatisation strategies of these countries, by using the accumulated available statistical and qualitative evidence to assess research questions specific to the region. In this research, the theoretical literature of FDI was reviewed, and used to develop an analytical framework for internationalisation decisions. On this basis, a questionnaire instrument was developed covering business relationships with five countries in the Balkans. Using a combination of postal survey and personal interviews, data collected from 230 Greek companies. The empirical part examined the decision process of Greek companies entering the region. Hypotheses derived from the literature were examined under the special conditions of economic transition in the Balkans.

Methods of empirical analysis were innovative for the research on entry decisions, in that multiple decisions were analysed in the same board data- set of potential

1 For more details see the studies of Kogut (1983), Root (1987), Young et al. (1989), Daniels and Radebaugh (1993), Kim and Hwang (1992), Johanson and Wiedersheim- Paul (1975), Cavusgil (1980), Buckley and Casson (1981), and Root (1987).

investors, and integrated with a three- step decision model. At the first stage, the propensity of firms to be active was examined. The second stage investigated their choice between trade and FDI. The third analysis tested hypotheses concerning the entry mode and ownership preferences of actual investors, as well as the performance resulted from the chosen ownership structure (entry mode). This concluding chapter interprets the research results and discusses the implications for both the international business literature and for research and policy in the economics of transition.

The purpose of this research was not to deal with every particular question concerning FDI in the Balkans, but to provide an adequate theoretical and empirical framework to make its distinctive traits intelligible and analyse the aspects of the Greek economic activities and Greek FDI in the Balkans during a systemic transformation process.

11.2 FDI During Transition: The Specificity of the Balkan Countries

The opening of the Balkan economies and their progressive integration in the world economy constitutes a new competitive arena for Greek companies. The widening of oligopolistic competition can be a factor of new opportunities such as access to specific knowledge, new markets, economies of scale, cost advantages etc. On the other hand, investment in these countries is risky, given the fluidity and instability of the local markets. Consequently, the opening of the Balkan economies offers new perspectives of profit and, at the same time, aggravates uncertainty. This contradiction seems to have a significant impact on the strategic goals, the ways and the modalities of Greek investment in these countries.

Balkan economies are a specific case regarding FDI. From the point of view of the Greek investors, they have some favourable characteristics: insufficient local supply, old products and an *open oligopoly* structure, given the decline of domestic production. On the other hand, the Balkans are less developed than other transition economies; they suffer poor economic performance and infrastructure and shortage of necessary skills, especially in the marketing and commercialisation fields and a pronounced bureaucratic behaviour of the local authorities.

FDI flows in the Balkans remain relatively weak compared to the CEE transition countries. Meanwhile, systemic change has favoured a growing internationalisation of the Balkan economies. Economic liberalisation and reforms have alleviated at least partially, the constraints burdening entrepreneurial activity under the former regime. So, a significant number, in comparison to other foreign investors, of Greek investors have invested in the Balkans since 1990. Greek companies were quick to position themselves in the new markets of the Balkans, as it was illustrated by the acceleration of Greek direct investment and reorientation in the pattern of international trade between Greece, the EU and its northern neighbours. However, companies operating in the region faced a distinct institutional framework, which predetermined the strategic opportunities for businesses. That created challenges for Greek companies, which differ not only from Greek- Western experience, but also among transition economies.

11.3 The Experience of the Greek Companies in the Balkans

Greek companies are well suited to doing business in the Balkans. They are used to dealing with heavy handed and arbitrary bureaucracy. They have experience in dealing with backward banking systems and until 1996, they have worked in a high inflation, high interest rate environment with a weak and depreciating currency. They know how to manipulate, manoeuvre and hedge to overcome such problems in ways their Western European and North American counterparts often do not. The problems are nonetheless difficult, even for them.

What is remarkable is that Greece used to be a host to FDI rather than an outward investing country (Rizopoulos 2001). The main vehicles of FDI are, of course, large multinationals. Whilst they still tend to dominate this process, the pattern seems to be changing. The greater flexibility afforded by globalisation and, in particular, the diversity of products and processes, now allows smaller companies to engage in FDI activity, provided these companies have certain ownership advantages. Such companies do not, necessarily, require a very large size before they can expand their operations abroad and Greek multinationals tend to fall in this category. Greek SMEs may have technological, organisational, financial competitive advantages compared to the Balkan companies, but disadvantages compared to other Greek companies in their domestic market. FDI in the Balkan markets enables these companies to take advantage of their ownership specific assets, while mobilising entry barriers for latter entrants. Furthermore, the presence of Western investors familiar with the region is limited. The local assets are small to medium size and it is too costly and inefficient for the Western investors to invest in the Balkans. Greek investors on the contrary are more able to respond in a speedy manner to a business opportunity due to their familiarity with the markets.

Regarding the privatisation programmes of the Balkan countries, the Greek investors in general agreed that the main characteristics of these programmes were similar to the characteristics of the Greek privatisation programmes in the early 1980s. Although bureaucracy and corruption were endemic and privatisation slow, and opaque in the Balkans, yet the Greek investors faced the same challenges and problems that they experienced with the Greek privatisation schemes. Attracting FDI has not been in the focus of the Balkan governments' economic policy, as it was the case of the Greek governments' economic policy in the early 1980s.

The main characteristics of the above mentioned economic policy was first that the share and role of the state sector in the economy, remained profound. Second, the rather weak impact on the financial and capital market development. Third, the insufficient demonopolisation of the market and development of the competition policy. Fourth, the low transparency of the continuously changing legal framework for the privatisation process which created a favourable space for many arbitrary decisions which led to different irregularities, expansion of corruption, and widespread perception of privatisation as an irregular activity. According to the Greek managers, problems in the Greek as well as in the Balkan markets had been encountered with official obstruction and protracted and complex negotiations with the local authorities, because of inconsistency in views between decision makers and frequent changes in policy and directions.

This negative position of the economic policy, both in Greece as well as in the Balkan countries, can be mainly explained by the strong influence of local economic interests who felt that they could not compete with foreign investors in an open and transparent environment and try to maintain an advantage by keeping foreign investors at a distance.

11.4 Discussing the Empirical Findings

No evidence suggests that the search for low labour costs has been the only motive for Greek companies. Investors reporting factor- cost motivation also report the market motive. This implies that only jointly with attractive markets do lower factor costs attract FDI. Competitive pressures and recession seem to induce companies to seek new markets at least as much as lower labour costs. Since the study covers different industry sectors, and labour costs are not relevant in all sectors, this conclusion may be generalised: with possible industry- specific exceptions, low labour costs are not the dominant motive for FDI in the Balkans.[2]

From discussion with the executives of the Greek subsidiaries in the Balkans, we can identify two major categories of investors in relation to size, internationalisation of activities, strategic objectives and previous involvement in the Balkans. First, leading international companies with a real international strategy, trying to develop, consolidate or protect their positions and market shares in some specific enlarged markets. They acknowledge the different locational problems, but they are of secondary importance concerning FDI decision in the region. Food and beverages, and banks provide some good examples. Second, companies that are trying to improve their competitive positions. They have in common their interests in location specific advantages in order to exploit or to acquire. For this reason, national market characteristics play an important role.

---

2 Why is this so? Whether or not factor costs play an important role in a companies' locational decision depends on its labour intensity, minimum efficient economies of scale and transportation costs. These vary substantially between industries and between the home and the host country. Low labour cost operations are not sensible, for instance in the capital- intensive food and beverage industries where transportation is cost- intensive. However, low labour costs are strongly considered due to the high Greek- Balkan wage differential. The general trend in Greece is towards capital- intensive production and manufacturing close to the customer. Thus there are few companies left in Greece who would have their competitive advantages in managing labour- intensive operations. At their advanced stages of internationalisation, companies are increasingly competing on the basis of organisational rather than technological capabilities. Their priority is to undertake market and strategic asset- seeking FDI and then factor- cost minimising strategies.

Summarising investors' specific strategic goals we can identify the following reasons motivating investment in the Balkans; (i) *Market penetration* the creation of competitive advantages and the elevation of entry barriers; (ii) *Strengthening competitive positions in EU markets* through the exploitations of comparative advantages, i.e. access to know how, raw materials, low production costs, low labour costs and re- exporting; (iii) *To protect investor's existing markets and increase competitiveness:* Greek companies are given the opportunity to maintain some of their existing markets by applying a low price strategy and by selling an old product in a profitable manner; (iv) *To prepare an expansion to third markets:* Balkans are often regarded a production and export platform to third markets. The companies in the region, although badly hit by the disintegration of the CMEA system, still have the potential of recovering the former economic relations within the region, including the former Soviet Union.

Overall the investment constraints raised by the Greek companies are not perceived as factors, which would necessarily prevent investment, rather as obstacles, which impede the investment process. Companies in the transition economies face three major constraints inhibiting the implementation of forward- looking strategies: Imperfect capital markets, corporate governance and managerial capabilities. General bureaucratic, administrative and legislative issues were the main external constraints, although their existence impeded the investment process rather than prevented it outright. These drawbacks, while being a potential hindrance to doing business, do not offset the profitability of entering the Balkan market. However, they do highlight the fact that business transactions are often difficult and time-consuming undertakings under the current economic circumstances in the Balkans.

FDI is expected to utilise lower factor costs in the Balkans and invest in export-orientated facilities. However, the costs advantage was eroded by low manufacturing productivity, due to outdated capital stocks, weak infrastructure and an underdeveloped legal and institutional framework. The issues of investment have been of prime interest among Greek investors. They consistently report that markets are the main attraction of the region. The attraction of the markets arises from the catch up demand to western levels of consumption and the expectation of sustainable economic growth. The cost differential is also utilised by outward processing trade, where the Balkan partner manufactures a labour intensive stage of the production process. Correspondingly, this study confirms that market size and expected growth are the most important determinants of FDI.[3] Factor costs, especially labour costs, are reported as a secondary aspect in attracting foreign investors.

The main concluding remarks suggest that in the 1990s Greek companies increase markedly their shares of outward FDI in the Balkans through a rather careful consideration of their financial and market structures apparently being urged by the loss of local comparative advantage. An obvious example is the positive effect of the long and medium term borrowing capacity of companies engaged in FDI. The solid market basis is noticed in the positive effect of the relative company size as well as the growth rate of sales. In addition, the more intense the acquired familiarity with foreign markets through exports the more likely the undertaking of FDI was found to be. Labour intensity, an old local comparative advantage, was found to affect positively the FDI vs. export choice. New low labour cost locations are preferred.

Greek companies- through their expansion- either seek new markets for their mature and technologically standardised products or they intend to take advantage of creative local factors of production and introduce new products tailored to cater for wider regional tastes and needs. Companies in this category thus follow either market or strategic asset seeking strategies.[4] Specific location characteristics in the Balkans,

---

3 With respect to markets, the transition economies were seen as highly attractive, as they offered a large number of potential new consumers with low levels of consumption of many products and with substantial prospects for future growth. These markets could be served by exports or FDI. In terms of the related motivation of acquiring and building market share, the low existing consumption levels also offered Greek companies the prospect of building brand and product loyalty in a new growing market. This suggests possible strong first mover advantages, reinforced by prospects of being the first to develop distribution systems. The transition economies also had high pre- existing levels of monopoly, offering strategic advantages through acquisition.

4 Dunning and Narula (1996) identified five main stages of development at a country level. Greece could be classified as a stage three country. The key characteristics of this stage include the deterioration of comparative advantage in domestic labour intensive industries and the advent of outward investment in stage one and stage two countries, which possess cheap labour and/or natural resources, such as the Balkan countries. Greek FDI investment in this case could be either market seeking or resource seeking, or perhaps a combination of both, which could eventually suggest the creation of export-processing zones in the Balkan economies.

such as cheap labour, access to raw materials and some form of existing physical infrastructure provide the necessary foundations for the realisation of such strategies.

At the same time, the gradual opening of the EU's market to products from the European transition economies might be a source of concern for Greek companies as their products might be competed away by the cheaper products. Investment in the Balkans appears to be driven by the intention of Greek companies to sustain and advance their international competitiveness, and to add the Balkans to their geographic portfolio in order to maintain their competitive advantage vis-à-vis their main competitors, as well as to prevent challenges from their rivals or the emergence of new competitors from within the region.

Within organisations, hierarchies replace prices as coordination mechanisms. Management coordinates individual activities, gives directions and monitors performance. Many of its activities revolve around the collection, communication and evaluation of information. The costs of managing across borders exceed those of a national company. Firstly, this is due to specific administrative costs of international production, and secondly, monitoring is more costly. However, from our data analysis we show how Greek companies may reduce these costs of internal organisation if they can utilise economies of common governance, international business experience, and strong financial base. Thus, by looking at the findings companies that preferred acquisition utilise economies of common governance, accumulation of international business experience and profitability, thus reducing the internal transaction costs. Greek companies with larger turnover are able to utilise economies of common governance and incur lower marginal costs when adding an additional operation to their portfolio.

Company resources form the basis for the company's strategy. It is the company's conditions that determine the company's ability to foresee and exploit external opportunities as well as to predict coming threats from the external environment. The notion that the company's current resources influence managerial perceptions and, hence the direction of company growth is a cognitive proposition that reinforces the economic rationale that a company's resource profile will influence the company's internationalisation strategy. It is resources that limit the choice of international markets the companies may enter, and the manner in which it may enter markets as well as performance in the Balkan markets.

While the resources or opportunities in the Balkan markets exist, the ability of each company to draw resources or make use of the available opportunities is constrained by each company's individual company resources. Companies will thus choose different foreign market entry strategies based upon their resources and capabilities. Our main proposition here was that companies with greater resources and capabilities to operate in international environment are more likely to reduce the uncertainties associated with investments in new foreign markets as well as transaction cost risks.

We found evidence that Greek companies investing in the Balkans select their ownership share based on affiliate's size, R&D and technology, resource and capital intensity of the company, labour and advertising intensity, and geographical diversification of international business activity. In previous studies of internationalisation, researchers have tended to treat uncertainties in foreign markets as given and have viewed a company's international expansion as either an adaptive or a learning process in unfamiliar local environments. This perspective suggests that Greek companies investing in a country with a greater uncertainty tend to perceive a higher level of investment risk and, thus, engage in less resource commitment in FDI. This theory is not compatible with our findings for the resource commitments of the Greek companies in the Balkans.

Although the joint venture may actually speed up entry into the market in the short term compare to acquisitions or even a greenfield investment, it does not necessarily facilitate activities in the medium- long term as modernisation is time consuming, expensive and can jeopardise the unique ownership assets of the companies by sharing knowledge specific assets in a joint venture or failing to exercise this knowledge in a greenfield investment, lacking the access to networking and markets.

From our data analysis in table 8.1, it appears that Greek companies do exert more control as proprietary content increase. R&D expenditures, which generate proprietary knowledge, have a negative relationship with the greenfield entry mode rather than acquired subsidiaries, while the relationship with joint ventures although it is positive it is not statistically significant. This implies that companies tend to reserve proprietary knowledge for entry vehicles they control completely; high control is more often employed for technically sophisticated products, which tend to have higher proprietary content than unsophisticated products. Specialised knowledge comes into the open market as the innovation diffuses. Over the time transaction- specific assets associated with an innovation become general purpose assets associated with a well- established product. As this diffusion occurs, we should expect to see less integration, as less administrative control is needed. Hence, older technology is likely to be handled by a joint venture, leaving new technology handled by a wholly ownership subsidiaries.

Previous research by Chackravarthy (1982) argues that organisations will opt for a *defender's strategy*- avoiding high resource commitments- concerning companies without material or human resources. Tan and Litschert (1994) have shown how successful companies in the transitional economy of China, have opted for the strategic posture of defenders. However, other authors have predicted that in turbulent environments organizations should be more proactive, adaptive, being able to seize every opportunity that comes along in the external environment (Ansoff and McDonnell, 1990). These arguments have been sustained by findings in Western economies (Ansoff and Sullivan 1993, Naman and Slevin, 1993, Miller 1988). Concerning the Balkans, the general lack of human and material resources, may be a constraint, which effectively refrain companies from adapting a more aggressive or proactive strategic posture in the face of problematic uncertainty. However, our results bring a new perspective into the existing theories in transition economies. From the data in table 9.2, the surprisingly high levels of commitment from the majority of Greek companies, enables us to conclude that Greek investors undertook important not only for the survival but also to fulfil the long- term strategic orientation of these companies strategies; to establish a strong local presence.

Responses in the business sphere involved changes in the way companies did business, the internal organisation, the mix of business activities they carried out, the strategies they deployed to remain or become competitive on specific markets, the technologies they use to produce and distribute their products. Investment activities and production reorganisation, as it shows in table 10.2, were the key element of successful restructuring, contrary to early concerns about the amount of money that would be required to restructure Balkan companies. In addition to responses in the business sphere, Greek companies began to design and implement strategies for long- term survival. Such strategies involved changes in the way that these companies conduct business, meaning the way in which the organise themselves, means of industrial relations, the mix of business activities they carried out, the strategies they deployed to remain or become competitive on specific markets, and the technologies they used to produce their products.

However, the high levels of resource commitments do not come at no cost, so we intended to observe their significance to the profitability of these companies, and how they affect it, thus being able to see if these high levels of resource commitments can be justified in a high-risk environment as in the Balkans.

Thus, we finally examined the links between entry mode and performance of Greek FDI in the Balkan markets. The area investigated was the effect of entry mode choice on subsidiary profitability. We investigated whether different ownership- based entry modes have characteristics, which lead to a hierarchy of performance. This is particularly necessary and important because profitability is the outcome of many factors. We based our hypothesis on a transaction cost analysis of entry modes, predicting the three modes' relative performance based on their anticipating costs. Our theoretical model suggests that factors modify the transactions costs related to the resources commitment in the Balkan markets and controlling the new organisational entity, which in turn affects entry mode performance (Buckley and Casson 1988, Caves and Mehra 1986, Daniels and Magill 1991, Hennart 1988, 1991).

The extent to which companies commit themselves to the Balkan market is expected to have an impact on company profitability. Reaching success in foreign markets usually demands continuous and committed operation in the market to build the needed distributor and customer networks, customer loyalty, etc. By providing the investment costs that the Greek ventures in the Balkans had, we were able to explain the effect these resource commitments had on the operating profitability of these companies. In the study of and Woodcock et al. (1994) and Nitsch et al. (1996), their hierarchical propositions regarding the relationship between the choice of entry mode and performance were based on the existing literature, thus, in our analysis we based on the above-mentioned study, therefore we are develop a similar hierarchical set of propositions to examine the operating profitability of the Greek companies. Nitsch et al. (1996) and Woodcock et al. (1994) proposed that greenfield would perform better that joint ventures and acquisitions, and joint ventures would perform better than acquisitions.

However, we found that: (i) the acquisition mode tends to have the highest proportion of profits relative to losses, (ii) greenfields and joint ventures have a mixed performance, (iii) greenfields are slightly less profitable than joint ventures.[5] The above findings provide evidence that different entry modes have different performance levels. Therefore, there is considerable supporting evidence that international ownership- based entry modes have different performance levels.

11.5 The Contribution of the Study and Propositions for Future Research

For scholars and practitioners wishing to examine the history of FDI in CEE, they can put themselves in the tradition of a huge number of previous researchers who studied strategic decision-making by Western companies.[6] On the contrary for scholars and practitioners wishing to examine the decision making of foreign

5 These findings are not entirely consistent with Dang (1977) who found no difference between wholly owned subsidiaries and joint ventures in terms of performance and Pan et al. (1999) who found that joint ventures have higher profitability that wholly owned subsidiaries. Furthermore our results are not consistent with Nitsch et al. (1996) and Woodcock et al. (1994) who found that greenfield will perform better that joint ventures, and joint ventures will perform better than acquisitions.

companies in the Balkans, research will depend on the interpretation of only recently available data. Hence while previous studies on the internationalisation process were developed and tested in CEE, the Balkans with their unique macro and microeconomic characteristics, as these explained in detail in chapter three, offer opportunities to explore different patterns of investment in transitional economies. Furthermore, a surprisingly small amount of empirical research has dealt with the changes taking place at the business level in the Balkans (Maroudas 1995, Rizopoulos 1995, 2001, Perakaki 2000). A more thorough understanding of the ways how foreign companies establish and develop their business activities was needed.

Indeed, because significant foreign investment into this region is occurring for the first time, much can be learned from the experience of the Greek companies, as this was presented in this study. The opening of the Balkan markets provided opportunities for studying the conditions influencing the choice of market entry strategies, and thus of the strategic aspects of internationalisation in transitional economies. As such, improved understanding of the growth of the company in the Balkans not only has theoretical contributions toward a more complete theory of company growth. It also has implications for foreign companies aiming at improved effectiveness when investing in formerly planned economies.

Today not much is known about the way Greek companies make the decision to engage in FDI. What are the ownership- company specific factors that make some companies express their interest in the region through FDI, whereas others opt for an export strategy or decide not to invest at all? The term *internationalisation strategy* has been conspicuously absent from the literature on the evolving Greek business presence in Balkans. But neither have Greek scholars utilised the vocabulary and the tools of *internationalisation strategy* analysis to explain Greek business activity in the region. We think this no coincidence. We detected a bias for a public policy perspective in Greek scholarship on the issue. A bias, which in its attempt to evaluate the consequences of Greek business activity in the region, focuses on the national

---

6 For more details see the studies of Meyer (1998, 2000), Uhlenbruck (1997), Hoesch (1998), Alter et al. (1993), Artisien (1998), Benito et al. (1994), Brouthers et al. (1998).

and the regional while underestimating the micro (companies). Greek business activity is seen through the lenses of its impact on national economies, either that of Greece or that of the host countries. Such an impact clearly occurs and must be evaluated. But by thus constraining our vision we fail to understand both the modus operandi of Greek companies in the region as well as their influence in the transition process. To reinforce our argument we provide a simple example. What explains the formation of a Greek FDI in the region so far? Primarily proximity- the causa prima of the Greek scholars- as has often been noted (Petrochilos 1997, Labrianidis 2000, Labrianidis et al. 2000, Labrianidis et al. 1997).[7] Proximity however needs to be examined and speculated upon in its specificity and not just be evoked mantra-like.[8]

Therefore, for the purpose of studying the presence of Greek FDI activity in the Balkans we employed an approach focusing on the characteristics of the companies that invest there rather than just simplifying the economic penetration with terms that first are stating the obvious and cannot be *measured,* (i.e. geographic proximity) and second do not discuss the dynamics of the FDI agents in the Balkans. The entry strategies of the Greek companies in the Balkans were analysed based on their ownership- company specific factors, based on Dunning's theory, that make some companies express their interest in the region through FDI, whereas others opt for an export strategy or decide not to invest at all. Only through such an examination of the internationalisation strategies of the companies we evaluated how these companies expanded in the neighbouring Balkan markets, how the corporate decision- making was affected, and how assets drove this new FDI experience of the Greek companies.

Few studies have explored the implications concerning the issues associated with both determinants and performance of entry strategy in international markets (Lieberman and Montgomery 1998). Studies focusing on market strategies and performance in the Balkans have been fragmented and share some common

---

7 Petrakos (1996, 2001) argues that the role of geography seems to be the most decisive factor affecting the allocation of Greek investment in the region.

8 Only such an examination can point the extent to which proximity is an inherently shared asset within a particular population of companies and individuals, an asset, which evolves through the activity of its being shared while also affecting the evolution of those who share in it. Proximity in

shortcomings.[9] These studies suffer from a narrow focus as market strategies are often discussed only from the viewpoint of entry modes, and financial performance, without considering issues of company restructuring, but most importantly the factors that have motivated the specific entry market strategies. Thus these studies are unable to catch the competitive dynamics of market strategies. Furthermore, they have also dealt with relatively small samples of companies undertaking FDI and mostly big companies, thus being unable to generalise the results of company behaviour into a larger population.

Therefore, this study explained the strategic aspects of internationalisation of the Greek companies, and used this framework to explain the entry strategies of Greek companies entering the emerging markets of Balkans and performance consequences of such entry, while considering issues of company restructuring. After a decade of market orientated reforms in these markets it was first of all important to examine whether market strategies of Greek companies have been successful and to what extent. By offering different strategic entry options and describing their repercussions to the specific environment of the Balkans and the experiences of Greek companies, the study provided insights into the environment for Greek companies wishing to enter the Balkan markets during their transition from a command to a market economy. By analysing the characteristics and the resource commitments of the Greek companies, we provided insights in the analysis of the companies' development in understanding and evaluating their environment. The aim was to obtain empirical evidence on the driving forces to company restructuring under conditions of a typical slow- transition economic region by focusing on the following research question: what kind of strategic restructuring and adaptation have Greek companies adopted in terms of organisation, production and investments?

The link between foreign entry mode and subsidiary performance in the Balkans has only begun to be investigated. While location and industry factors were partially

---

other words cannot simply be registered and then disregarded as the ultimate effect, in terms of trade and FDI volumes, of the shortness of distance from Athens to Sofia, from Athens to Bucharest.

9 For more details see the studies of Arvanitides (1999), Boukogiannis (1994), Drakos (1994), Sarantopoulos (1994), Lambrou (1996), Pepelasis (1996), Seimanidi (1996).

controlled in this study, a more fine- grained analysis, which controls for these and various other variables would provide further insight. The relationship between company- specific factors, country factors, transactions, entry mode, and finally, performance, is much more complex than the methodology employed here is hoping to reveal. Our empirical evidence provides support for the theoretical model developed in this study. It must be acknowledged, however, that this study represents only an exploratory investigation of an otherwise complex causal relationship. As such, it establishes a base theoretical model and evidence upon which subsequent work can be based. In addition, industry- specific factors, such as barriers to entry and exit, may improve the explanatory capacity of the model.

11.6 Conclusions

The beginning of the 1990s gave rise to a number of questions concerning the impact of changing *economic geography* on the economic performance and outcomes on both sides of the East- West frontier. In this new setting, several *border conditions* are changing, as Germany for example is transformed from the eastern border to the central part of the new Europe, and Greece, the most peripheral member of the EU, finds neighbours to trade with after decades of isolation. The Balkans seems to provide Greece with opportunities for rapid expansion of its international business activities

FDI could be an important element of economic restructuring and adjustment in the Balkans. However, flows and stock of FDI are still very low. The infrastructure and institutional features of the Balkan countries often surprise Greek investors. Furthermore, great uncertainty has a negative impact on FDI operations. It is clear that the rapid dismantling of the former system should create a more favourable institutional framework for foreign investment opportunities. But, alternatively, the instability arising from an excessively rapid reform may discourage future FDI flows.

The Greek economic presence in the Balkans has been remarkable. A zone of major Greek economic influence comprises its neighbouring countries. The economics of Greek performance in the Balkans are sensible but do cast some doubt on future prospects. Greece is exploiting its comparative advantages, which beyond geography and history include such factors as flexibility in a volatile environment and intermediate prices and quality in conditions of limited incomes and domestic production recovering from collapse. These latter factors are likely to erode with time, and Greek exporters and investors will meet increasing competition from Balkan and other Western producers.

On the whole, Greece profits from economic integration with the Balkans. The real problem, however, as it was discussed on chapter 3, is that the Greek economy seems to be turning away from the demanding EU market, finding easier outlets in the Balkans. There is thus a risk that the Balkan *opening* will take the form of a quantitative downgrading of Greek production. Such a process could in the long run have serious economic consequences, as Greece would seem to be seeking refuge in a marginalized Balkan area.

The market opening of the Balkan markets presented four alternative investment scenarios for the Greek companies. The first scenario is that Greek companies organise production in Greece, but the cheap labour in the Balkan countries assembles the finished goods. The second scenario is that competitive Greek companies would acquire technologically- backward Balkan companies in order to monopolise local consumer markets. The third scenario is that Greek companies would organise cross- national networks, that is companies managed by Greek companies, but involving technological and production innovation in the Balkan companies. The fourth scenario is that Greek companies would invest and produce locally to serve the local markets.

BIBLIOGRAPHY

Aal, E.B.W. (1997), Competitive strategy of Dutch companies in Hungary, mimeo, Budapest University of Economics, 'Competing the world', Research Project.

Adams G. J.Schvaneveldt, Understanding Research Methods, New York: Longman, 1985.

Agarwal, S. and S.N. Ramaswami (1992). Choice of foreign market entry mode: Impact of ownership, location and internalisation factors. Journal of International Business Studies 23:1, 1-28.

Aghion, P. and W.Carlin. 1996. "Restructuring Outcome and the Evolution of Ownership Patterns in Central and Eastern Europe," Economics of Transition, vol 4, no 2, pp. 371-88.

Albach, H.T. 1994. The management of transition in East German Firms, Paper Presented at IFSAM, Second World Conference on Management, Dallas.

Alchian, Armen and Harold Demsetz (1972) Production, Information Costs and Economic Organisation, American Economic Review 62, 777- 95.

Alreck Pamela and Robert Settle, The Survey Research Handbook, Chicago: Irwin, 1995.

Anand, J. and A. Delios (1997). Location Specificity and the Transferability of Downstream Assets to Foreign Subsidiaries, Journal of International Business Studies, 28 (3), p. 579- 604.

Anand, J. and A. Delios (1996) Greenfield vs. Acquisition: The role of distribution and advertising in foreign entry in the US, AIB Conference, Banff, September.

Anderson, John and Derbie, Douglas, 1974. Questionnaires: Design and Use. The Scarecrow Press, Inc. N.J

Andersson, O. (1993) On the internationalisation process of the firm: a critical analysis, Journal of International Business Studies 24, no. 2, 209- 31.

Anderson, E. and David Schmittlein (1984) Integration of the sales force: an empirical examination, Rand Journal of Economics 145, 385- 95.

Anderson, E. M. and Gatignon, H. (1986): Modes of Foreign Entry: A Transaction Costs Analysis and Propositions, Journal of International Business Studies, Fall, p. 1- 26.

Andersson, T. and R. Svensson (1994): Entry Modes for Direct Investment Determined by the Composition of Firm- Specific Skills, Scandinavian Journal of Economics 96, p. 551-560.

Andrews, K. R. 1980. The concept of corporate strategy (Rev. ed.). Homewood, Ill.: R. D. Irwin.

Arrow, K. J. 1971. Essays in the Theory of Risk Bearing, Chicago.

Artisien Patrick (ed.) Foreign Investment in CEE. 1998, MacMillan Press, London.

Aslund A and O Sjoberg (1992), "Privatisation and TransitionF to a Market Economy in Albania,", Communist Economies and Economic Transformation , 4, No. 1, 135-150.

Ansoff, I. 1957. Strategies for diversification. Harvard Business Review, 55(5).

Ansoff, H.I and Sullivan, P.A. 1993. Optimising Profitability in Turbulent Environments: A Formula for Strategic Success. Long Range Planning, vol. 26, no.5, pp. 11-23.

Ansoff, H.I. and McDonnell, E.J. 1990. Implanting Strategic Management. Prentice Hall International Ltd., United Kingdom

Antal-Mokos, Z. 1998. Privatisation, Politics, and Economic Performance. Cambridge, UK: Cambridge University Press.

Arvanitides, N. (1999). Strategy and Perspectives of Investment Activities. Oikonomikos Taxydromos, issue 33. p. 40. (In Greek)

Babanasis, Stergios (1997), Changes and Business Opportunities in Central and Eastern Europe, Papazisis Publishers, Athens

Barkema, H.G. and F. Vermeulen (1998): International expansion through start- up or through acquisition: a learning perspective, Academy of Management Journal 41, 7- 26.

Bartlett, C.A. and Ghoshal, S. (1989) Managing across borders -The transnational solution, London: Hutchinson Business Books.

Barney, J. B. 1991. Firm Resources and Sustained Competitive Advantage. Journal of Management, 17(1): 99-120.

Barney, J. B. 1988. Returns to bidding firms in mergers and acquisitions: Reconsidering the relatedness hypothesis. Strategic Management Journal, 9: 71-78.

Barney, J. B. 1986. Strategic Factor Markets: Expectations, Luck, and Business Strategy. Management Science, 32(10): 1231-1241.

Beamish, P.W., and Banks, J. C. 1987. Equity Joint Ventures and the Theory of the Multinational Enterprise. Journal of International Business Studies, 17 (summer), pp. 1- 16.

Bell, J.H.J. (1996). Joint or single venturing? An eclectic approach to foreign entry mode choice. Aldershot, UK: Avebury.

Bell, J.H.J. (1996) Control and ownership in international joint ventures. Proceedings of the University of Vaasa. Reports 18, 34- 60.

Bell, J., H.G. Barkema and A. Verbeke 1997. An Empirical Mode of the Choice Between Wholly- Owned Subsidiaries and Joint Ventures as Modes of Foreign Entry, in P.W.

Benito, G.R.G and Welch, L.S. (1994), 'Norwegian companies in Eastern Europe: past involvement and reaction to recent changes', in Buckley P.J and Ghauri P.N. (eds.), The Economics of Change in East and Central Europe: Its Impact on International Business, Academic Press, 253- 48, Harcourt Brace and Company, London and New York.

Best, M.H. (1990) The new competition, Cambridge Massachusetts: Harvard UP.

Borsos, Juliana and Mika Erkkila (1995) Regional Integration in the Baltic Rim- FDI and Trade- based Interaction of Finland, Estonia and St. Petersburgh, ETLA- The Research Institute of the Finnish Economy, discussion Paper no. 539, September.

Boubakri, Narjess and Jean- Claude Cosset. 1997. The Financial and Operating Performance of Newly Privatised Firms: Evidence from Developing Countries, Universite Laval, mimeo.

Boukogiannis, D. A. (1994). Greek Investment Activities. Oikonomikos Taxydromos, issue 42. p. 62. (In Greek)

Brada, J. (1981) Technology Transfer by Means of Industrial Cooperation: A Theoretical Appraisal: A Theoretical Appraisal, in Paul Marer and E. Tabaczynski (eds.) Polish –US Industrial Cooperation in the 1980s, Bloomington: Indiana University Press.

Brada, Josef C. 1998. Management 101: Behavior of Firms in Transition Economies. Working Paper No. 133. Ann Arbor, MI: William Davidson Institute.

Brouthers, Keith D. and Gary J. Bamossy (1997): The role of key stakeholders in international joint- venture negotiations: case studies from Eastern Europe, Journal of International Business Studies 28, 285- 308.

Brouthers, Keith D., L.E. Brouthers and G. Nakos. 1998. National Cultural Influences on Central and Eastern European Entry Mode Selection, AIB Conference, Vienna.

Brouthers, Keith D., L.E. Brouthers and G. Nakos (1998): Central and Eastern European Investment: A Comparison of U.S., Dutch and German firm activities, in: G. Hooley, R. Loveridge and D. Wilson, eds: Internationalisation: Process, Context and Markets, MacMillan Press.

Brouthers, K.D. (1995). The Influence of International Risk on Entry Mode Selection in the Computer Software Industry, Management International Review, 35 (10), pp. 7- 28.

Brown, A.D. and Starkey, K. 1994. The Effect of Organisational Culture on Communication and Information. Journal of Management Studies, vol. 31, no. 6, pp. 807- 828.

Brown, L.T., A.M. Rugman and A. Verbeke. 1989. Japanese joint ventures with western multinationals: Synthesising the economic and cultural explanations of failure. Asia Pacific Journal of Management, 6 (2): 225- 242.

Buckley, P.J. 1997: Cooperative forms of transnational corporation activity, in: J.H Dunning and K.P. Sauvant, eds: Transnational Corporations and World Development, London: Thomson, p. 473- 493.

Buckley, P. J. 1983. New Theories of International Business: Some Unresolved Issues. In M. Casson, (ed.) The Growth of multinational Business. London: Allen & Unwin.

Buckley, P. J. and M.C. Casson. 1988: A Theory of Cooperation in International Business, in: F.J. Contractor and P. Lorange, eds, Cooperative Strategies in International Business, San Francisco: Lexington, p. 31-54

Buckley, Peter, J. and M. Casson. 1981. The Optimal Timing of a Foreign Direct Investment. Economic Journal, 91, March: 75- 87.

Buckley, P. J. and M. C. Casson (1976): The Future of the Multinational Enterprise, Macmillan, London 1976.

Buckley, P. J. and M. C. Casson (1998): "Analysing Foreign Market Entry Strategies: Extending the Internalisation Approach", Journal of International Business Studies, vol. 29, no.3, pp. 539- 562.

Buckley, P.J. and P. N. Ghauri. 1993. The Internationalisation of the Firm: Dryden Press.

Buckley, P.J. (1985): New Forms of Industrial Cooperation, in P. J. Buckley and M. C. Casson: The Economic Theory of the Multinational Enterprise, London: McMillan.

Buckley, Peter J. (1988): The Limits of Explanation: Testing the Internalisation Theory of the Multinational Enterprise, Journal of International Business Studies 19, 181- 193.

Buckley, Peter J. (1990): Problems and Developments in the Core Theory of International Business, Journal of International Business Studies 21, 657- 665.

Buckley, Peter and Mark Casson (1985): The Economic Theory of the Multinational Enterprise, London: MacMillan.

Buckley, P.J., C. Pass and K. Prescott (1992), The intenralisation of service firms: a comparison with the manufacturing sector, Scandinavian International Business Review, 1(1): 39-56.

Burgleman, R.A. 1983. A process model of international corporate venturing in diversified major firm. Administrative Science Quarterly, 28: 223- 44.

Burgleman, R.A. 1985. Managing the new venture division: Research findings and implications for strategic management. Strategic Management Journal, 6: 36-54.

Calvet, A. L. " A synthesis of foreign direct investment theories and theories of the multinational enterprise ", Journal of International Business Studies, 12, Spring- Summer 1981, pp. 43- 59.

Cantwell, J. (1991) "Theories of International Production", in Pitelis, C. and Sugden, R. (eds), The Nature of the Transnational Firm, London: Routledge.

Cantwell, John A. (1991) A Survey of theories of International Production, in: C. Pitelis and R. Sugden (eds.) The Nature of the Transnational Firm, London: Routledge, pp. 16- 63.

Cantwell, John A. (1989) Technological Innovation and Multinational Corporations, Oxford: Basil Blackwell.

Cardozo, R., P. Reynolds, B. Miller and D. Phillips. 1989. Empirical evidence on developmental trajectories of new businesses. In R. Brockhaus, N. Churchill, J. Katz, B. Kirchhoff, K. Vesper and W. Wetzel, editors, Frontiers of entrepreneurship research, 360-69. St. Louis: St. Louis University, Babson College.

Carlin, Wendy, J. van Reenen and T. Wolfe (1995): Enterprise Restructuring and Dynamism in Transition Economies, Economies of Transition 3, p. 427- 458.

Carlin, W. and Aghion, P. Restructuring Outcomes and the Evolution of Ownership Patterns in Central and Eastern Europe, Economics of Transition, vol. 4, no. 2, 1996, p. 371- 388.

Casson, Mark. 1987. The Firm and the Market: Studies on Multinational Enterprise and the Scope of the Firm. Cambridge, Mass.: MIT Press.

Casson, M.C. 1995: The Organisation of International Business, Aldershot: Elgar.

Casson, Mark (1982): Transaction Costs and the Theory of the Multinational Enterprise, in Alan M. Rugman (ed.): New Perspectives in International Business, London: Croom Helm.

Casson, Mark (1997) Information and Organisation: A New Perspective on the Theory of the firm, Oxford: Clarendon Press.

Cateora, R. P. (1993) International Marketing, Boston, MA: Urwin.

Caves, R.E., Multinational Enterprise and Economic Analysis, CUPress, 1996.

Caves, R. E. and S. K. Mehra. 1986. Entry of foreign multinationals into U.S. manufacturing industries. In M. E. Porter, editor, Competition in Global Industries, 449- 481. Boston: Harvard Press.

Caves Richard E. (1971): International Corporations: The Industrial Economics of Foreign Investment, Economica 38, 1- 27.

Caves, Richard E. (1982): Multinational Enterprise and Economic Analysis, 2nd edition, Cambridge: Cambridge University Press.

Cavusgil, S.T (1980) 'On the internationalisation process of firms', European Research 8, November, 273- 81.

Cespedes, Frank V. 1988. Control vs. resources in channel design: distribution differences in one industry. Industrial Marketing Management, 17: 215- 27.

Chackravarthy, B.S. 1982. 'Adaptation: A Promising Metaphor for Strategic Management'. Academy of Management Review, Vol. 7, no. 1, pp. 35-44.

Chan, P.S. (1995). International Joint Ventures vs. Wholly Owned Subsidiaries, Multinational Business Review, Spring, pp. 37- 44.

Chandler, A. D. 1962. Strategy and structure: chapters in the history of the industrial enterprise. Cambridge,: M.I.T. Press.

Charap J., A. Zemplinerova. 1993. Restructuring in the Czech Economy, working paper no. 2, EBRD. March.

Chatterjee, S. (1990): Excess Resources, Utilisation Costs, and Mode of Entry, Academy of Management Journal 33, 780- 800.

Chatterjee, S.M.H. Lubatkin, D.M. Schweiger and Y. Weber (1992): Cultural differences and shareholder value in related mergers: linking equity and human capital, Strategic Management Journal 13, p. 319- 334.

Child, J. 1972. Organizational structure, environment and performance: The role of strategic choice. Sociology, 6: 1-22.

Child, J. 1977. Organisation: A Guide to problems and practices. New York: Harper and Row.

Chiles, T.H. and J.F. McMackin (1996) Integrating Variable Risk Preferences, Trust and Transaction Cost Economics, Academy of Management Review 21, 73- 99.

Christodoulakis, Nikos, Petrakos, George (1997), Economic Developments in the Balkan Countries and the Role of Greece: From Bilateral Relations to the Challenge of Integration, CEPR Discussion Paper 1620, London, May.

Christodoulakis, Nikos, Petrakos, George (1999), Transition in the Balkans: Patterns of Change and Policies to Overcome Marginalisation and Disintegration, PHARE- ACE Programme Structural Changes and Spillovers in the East European Reform Process, Final Report, Imperial College Management School, University of London.

Claessens, S., S. Djankov, and G. Pohl. 1997. 'Ownership and Corporate Governance: Evidence from the Czech Republic.' World Bank Policy Research Working Paper 1737, Washington, D.C.: The World Bank.

Claessens, S. Djankov, S., G., Pohl (1997) Determinants of Performance of Manufacturing Firms in Seven European Transition Economies, The William Davidson Institute, Working Paper no. 74, February.

Clark, E. and A. Soulsby 1995. Transaforming former state enterprises in the Czech Republic, Organisation Studies 16, p. 215- 242.

Clegg, Jeremy (1990): The Determinants of Aggregate International Licensing Behaviour: Evidence from Five Countries, Management International Review 30, p. 231- 251.

Coase, Ronald H. (1937): The Nature of the Firm, Economica 4, 386- 405.

Collis, S. 1991. A resource- based analysis of global competition: the case of the bearings industry, Strategic Management Journal, 12 (special issue, Summer): 49- 68.

Conner, Kathleen R. (1991): A Historical Comparison of Resources- Based Theory and Five Schools of Thought Within Industrial Economics: Do we have a new theory of the firm? Journal of Management 17, 121- 154.

Contractor, F. J. 1990: Contractual and Cooperative Forms of International Business: Towards a Unified Theory pf Modal Choice, Management International Review 30: 31- 54.

Contractor, F.J. and P. Lorange. 1988. Competition vs. Cooperation: A benefit/ cost framework for choosing between fully- owned investments and cooperative relationships. Management International, 28 (Special Issue): 5- 18.

Contractor, Farok J. (1990) Ownership patterns of US joint ventures abroad and the liberalisation of foreign government regulation in the 1980s: evidence from the benchmark surveys, Journal of International Business Studies 21, 55- 73.

Contractor, F.J. (1990) Do Government Policies toward Foreign Investment Matter? An Empirical Investigation of the Link Between National Policies and FDI Flows, GSM Working Paper, 90- 15:88.

Corbo, Vittorio, Fabrizio Corriceli and Jan Bossak (eds) (1991): Reforming Central and Eastern European Economies: Initial Results and Challenges, Washington, DC: World Bank.

Csech, J. (1997), Situation of textile and apparel industry, and factors determining its competitiveness, mimeo, Budapest University of Economics, 'Competing the world' Research Project.

Czinkota, M. R., Rivoli and I. A. Ronkainen (1993) International Business, London: The Dryden Press.

Dam, Q. van, Keith D. Brouthers, Lance E. Brouthers and George Nakos (1996): Investments in Central and Eastern Europe: A Comparison of Dutch and US Firm Activities, Academy of International Business, UK chapter conference at Aston University, 29- 30. March, Proceedings pp. 162- 182.

Dang, Tran T. (1977), Ownership, control and performance of the multinational corporation: a study of US wholly owned subsidiaries and joint ventures in Phillipines and Taiwan, Ph.D. thesis, University of California, Los Angeles.

Daniels, J.D. and J. Bracker (1989). Profit Performance: Do Foreign Operations Make a Difference?, Management International Review, 29 (1), pp. 46- 56.

Daniels, J.D and L.H. Radebaugh (1993) International Business: Environment and Operations, Reading, Massachusetts: Addison- Wesley.

Daniels, J. D. 1970. Recent foreign direct manufacturing investment in the United States. Journal of International Business Studies, 1 (1): 125- 132.

Daniels, J. D. and Sharon L. Magill. 1991. The utilisation of the international joint ventures by the US firms in high technology industries. Journal of High Technology Management Research, 2 (1): 113- 31.

Davidson, William H. 1982. Global Strategic Management. New York: John Wiley.

Davidson, William H. 1980. The location of foreign direct investment activity: Country characteristics and experience effects. Journal of International Business Studies, 12: 9- 22.

Davidson, W.H. and D. McFetridge 1985: Key Characteristics in the Choice of International Technology Transfer Mode, Journal of International Business Studies 16, no. 2, p. 5- 21.

Dobrinsky, R. (1997) Bulgaria and Romania: Patterns of trade, specialisation in trade with the EU during the transition from plan to market, Paper presented in the Conference 'Economic Cooperation in the Balkans: A Regional Approach to European Integration' Phare- ACE Program, University of Thessaly, Department of Planning and Regional Development, Volos, 16- 19 January 1997.

Dobrinsky, R. (1997), Transition Failures: Anatomy of the Bulgarian Crisis. WIIW Research Report no. 236, May.

Dobrinsky, R., Dochev, N., Buchtikona, A. and Apek, A. (1994), 'Enterprise Behaviour in Transition Economies: A Comparison of Bulgarian and Czech Enterprise Performance', paper presented at the workshop on Industrial Restructuring, Reorientation of Trade and East- West Integration, Sofia, 29- 30 May 1994.

Dobrinsky, R. (1997) Multi- speed transition and multi- speed integration in Europe: recent economic developments in the Balkans and their implications, Paper presented in the Conference 'Economic Cooperation in the Balkans: A Regional Approach to European Integration', Phare- ACE Program, University of Thessaly, Department of Planning and Regional Development, Volos, 16- 19 January 1997.

Dobrinsky, R. (2000). Economic Growth, Reconstruction and Development in SEE: What Prospects after a decade of decline? In Gligorov, V. (2000) (ed.), Balkan Reconstruction: Economic Aspects, The Vienna Institute of International Economic Studies, Vienna.

Dobrinsky, R. (1999). Economic Growth, Reconstruction and Development in South- east Europe: What Prospects after a decade of decline? Paper presented at the joint LSE- WIIW Conference: Reconstruction and Integration in Southeast Europe: Economic Aspects, Vienna, 12- 13 November, The Vienna Institute of International Economic Studies, Vienna.

Drucker, Peter. 1974. Management: Tasks, responsibilities, promise. New York: Harper and Row.

Dunning, J. H. (1988): Explaining International Production. London: Unwin Hyman.

Dunning, J. (1989) The theory of international production. In K. Fatemi (ed.). International trade: Existing problems and prospective solutions. New York: Taylor and Francis, 45- 84.

Dunning, J. (1993) Multinational Enterprises and the Global Economy, NY: Addison Wesley.

Dunning, J.H. 1980. Toward an eclectic theory of international production: Some empirical test. Journal of International Business Studies, 11(2): 9- 31.

Dunning, J.H., (1981) Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach, Weltwirtschaftliches Archiv 119, 30- 64.

Dunning, John, H. (1986) The investment development cycle and third world multinationals, in: Khushi M. Khan (ed.): Multinationals of the south. New Actors in the International Economy, London: Croom Helm.

Dunning, J. H. (1997): Trade Location of Economic Activity, and the Multinational Firm. A Search for an Eclectic Approach, in B. Ohlin, P. Hesselberger and P. M. Wijkman (eds): The International Allocation of Economic Activity, London.

Dunning, John H. (1980): The Location of Foreign Direct Investment Activity, Country Characteristics and Experience Effects, Journal of International Business Studies, pp. 9- 22.

Dunning, John H. (1981): International Production and Multinational Enterprise, London: Allen and Unwin.

Dunning, John H. (1993). The Prospects for Foreign Direct Investment in Eastern Europe. In: Foreign Investment in Central and Eastern Europe. Ed. Patrick, Artisien, Matija Rojec and Marjan Svetlicic. London: St. Martins Press.

Dunning, J. H., The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions, Journal of International Business Studies, 19, 1988, 2, pp.1- 31.

Dunning, J.H. 1998. Location and the Multinational Enterprise: A neglected factor? Journal of International Business Studies 29, p: 45- 66.

Dunning. J. and Narula, R. (1996). The Investment Development Path Revisited: Some Emerging Issues, in Dunning, J. and Narula, R. (eds.), Foreign Direct Investment and Governments: Catalysts for Economic Restructuring, London: Routledge.

Dunning, J,H. & Rugman, A., "The Influence of Hymer's Dissertation on Theory of Foreign Direct Investment", American Economic Review, Vol. 75, 1985, pp. 228-32.

Dierickx, I. & Cool, K. 1989. Asset stock accumulation and sustainability of competitive advantage. Management Science, 35(12): 1504-1513.

Djankov, Simeon and Bernard Hoekman (1997). Trade Reorientation and Productivity Growth in Bulgarian Enterprises. The World Bank, International Economics Department, Working Paper 1707, January.

Djankov, S. and P. Murrell, 2000, The determinants of enterprise restructuring in transition: an assessment of the evidence, Washington: World Bank.

Djankov, Simeon (1999): Ownership Structure and Enterprise Restructuring in Six Newly Independent States, Comparative Economic Studies 41, p. 75-95.

Djankov, Simeon and Pohl, Gerhard, (1998), 'The Restructuring of Large Enterprises in the Slovak Republic, Economics of Transition', vol. 6, no. 1, p. 667- 685.

Djankov, Simeon, Ownership Structures and Enterprise Restructuring in the Commonwealth of Independent States, World Bank mimeo, July 5, 1998.

Doz, Y. (1986). Strategic management in multinational companies. Oxford: Pergamon.

Drakos, A. (1994). Greek Investment in the Balkans. Oikonomikos Taxydromos, issue 7. p. 109. (In Greek).

Dubin, M. (1975). Foreign acquisitions and the spread of the multinational firm. D.B.A thesis, Graduate School of Business Administration, Harvard University.

East West Institute (2000) Task Force on Economic Strategy for South Eastern Europe, June

EBRD (2001): Transition Report, London.

EBRD (2000): Transition Report,London.

EBRD (1999). Transition Report, London.

EBRD (1998). Transition Report, London.

EBRD (1997). Transition Report, London.

EBRD (1996). Transition Report, London.

EBRD (1994). Transition Report, London

ECE (1999) Economic Survey of Europe 1999, no.2, New York and Geneva: United Nations Economic Commission for Europe.

ECE (1993) Comparative GDP Levels, Physical Indicators, Phase III. Economic Studies no. 4, New York and Geneva: United Nations Economic Commission for Europe.

Eisenhardt, K.M. 1989.'Building Theories from Case Study Research'. Academy of Management Review. 1989, vol. 14, no. 4, pp. 532- 550.

Eisenhardt, K.M. Zbaracki, M.J. 1992. Strategic Decision Making. Strategic Management Journal, vol. 13, pp. 17- 37.

Eisenhardt, K.M. and Bourgeois, L.J. 1988. 'Politics of Strategic Decision Making in High Velocity Environments: Toward a Midrange Theory'. Academy of Management Journal, vol. 31, no. 4, pp. 737- 770.

Ekeledo, I. and Sivakumar (1998). Foreign Market Entry Mode Choice of Service Firms: A Contingency Perspective, Journal of the Academy of Marketing Science, 26 (4): 274- 292.

Erramilli, M. Krishna (1991). The experience factor in foreign market entry behaviour of service firms. Journal of International Business Studies, 22(3): 479- 502.

Erramilli, M. Krisha and C.P. Rao (1990): Choice of Foreign Market Entry Modes by Service Firms: Role of Market Knowledge, Management International Review 30, 135- 150.

Errammili, M.K. and C.P. Rao (1993). Service Firms' International Entry Mode Choice: A Modified Transaction Cost Analysis Approach, Journal of Marketing, 57, pp. 19- 38.

Ericson, R. E. 1998. Restructuring in transition: Conception and measurement. Comparative Economic Studies, 40(2): 103-108.

Ernst, M., Alexeev, M. & Marer, P. 1995. Transforming the Core: Restructuring Industrial Enterprises in Russia and Central Europe. Boulder, CO: Westview Press.

Estrin Saul and Klaus, Meyer. 'Entry Mode in Emerging Markets: Greenfield, Acquisition and Brownfield.' CEES, Copenhagen Business School, Working Paper no. 18, 1998.

Fagre, N. and L.T. Wells, Jr. (1982) Bargaining Power of Multinationals and Host Governments, Journal of International business Studies 13, no. 3, 33- 50.

Filatotchev, I., Hoskisson, R. E., Buck, T. & Wright, M. 1996. Corporate restructuring in Russian privatizations: Implications for U.S. investors. California Management Review, 38(2): 87- 105.

Fiol, C. M. & Lyles, M. A. 1985. Organizational Learning. Academy of Management Review, 10(4): 803-813.

Fischer, Stanley and Alan Gelb (1991): Issues in the Reform of Socialist Economies, in V. Corbo, F. Coricelli and J. Bossak (eds): Reforming Central and Eastern European Economies: Initial Results and Challenges, Washington, CD: World Bank, pp. 65- 82.

Fischer, Stanley and Alan Gelb, The Process of Socialist Economic Transformation, Journal of Economic Perspectives, vol. 5, no. 4 (Fall), 1991, p. 91- 105.

Franko, L., Joint Venture Survival in Multinational corporations, Praeger, New York, 1971.

Franko, L., (1989) Use of minority and 50-50 joint ventures by US multinationals during the 1970s: The interaction of host country policies and corporate strategies, Journal of international Business studies, vol. 20. no.1, pp. 19-40.

Forsgren, M. (1989) Foreign Acquisitions: Internalisation or Network Interdependancy, in L. Hallen and J. Johanson (eds.) Networks of Relationships in international Industrial Marketing, Greenwich: JAI Press.

Forsgren, M. 1989. Managing the internationalisation process: The Swedish case. London, U.K.: Routledge.

Fredrickson, J.W. 1983. 'Strategic Process Research: Questions and Recommendations'. Academy of Management Review, vol. 8, no. 4, pp. 565- 575.

Fredrickson, J.W. 1985. 'Effects of Decision Motive and Organisational Performance Level on Strategic Decision Processes'. Academy of Management Journal, vol. 28, no. 4, pp. 821-843.

Frydman, R., Cheryl, Gray, Marek Hasel and Andrzej Rapaczynski (1997): Private Ownership and Corporate Performance: Evidence from Transition Economies, EBRD working paper no. 26, London, December.

Frydman, R., Gray, C., Hessel, M. and Rapaczynski, A. (1997) Private Ownership and Corporate Performance: Some Lessons from Transition Economies, WPS 1830, The World Bank.

Galbraith, Craig S. and Neil M. Key, 1986, Towards a theory of multinational enterprise, Journal of Economic Behaviour and Organisation 7, 3- 19.

Gatignon, H. and E. Anderson 1988: The Multinational Corporation Degree of Control over Subsidiaries: An Empirical Test of a Transaction Cost Explanation, Journal of Law, Economics and Organisation 4, p. 305- 366.

Gatling, Rene (1993): Foreign Investment in Eastern Europe: Corporate Strategies and Experience, Research Report written in association with Creditanstalt Bankverein, London: Economist Intelligence Unit.

Geringer, J. M. Hebert, L. 1991. Measuring Performance of International Joint Ventures. Journal of International Business Studies, 22 (2), pp. 249- 265.

Genco, P., S., Taurelli and C., Viezzoli (1993): Private investment in CEE: Survey Results, working paper no. 7, European Bank for Reconstruction and Development.

Geringer, J. and Hebert, L. 1989. Control and performance of international joint ventures. Journal of International Business Studies, 20(2): 235- 54.

Ghosal, S. (1987). Global Strategy: An Organising Framework, Strategic management Journal, 8, pp. 425- 440.

Gligorov, V., Kaldor, M. and Tsoukalis, L., (1999): Balkan Reconstruction and European Integration. The Hellenic Observatory, The European Institute, LSE, October.

Gligorov, V. (2000) (ed.), Balkan Reconstruction: Economic Aspects, The Vienna Institute of International Economic Studies, Vienna.

Gligorov, V. (2000) Stability Pact and Prospects for Balkan Reconstruction, The Vienna Institute of International Economic Studies Spring Seminar Paper.

Gligorov, V. (1999) Patterns of Divergence in the Western Balkans, The Vienna Institute Monthly Report, no. 5, 1999.

Gligorov, V. (1999), Trade and Investment in the Balkans, in V. Glogorov, The Kosovo Crisis and the Balkans: Background, Consequences, Costs and Prospects. The Vienna Institute of International Economics, Country Analysis and Country Profiles no.13.

Goodnow, J.D. and Hansz, J.E. (1972), Environmental Determinants of Overseas Market Entry Strategies, Journal of International Business Studies, Spring, pp. 33- 50.

Gomes- Casseres, B. 1991: Firm Ownership Preferences and Host Government Restrictions. An Integral Approach, Journal of International Business Studies 21, p. 1- 22.

Gomes- Casseres, Benjamin (1989): Ownership Structures of Foreign Subsidiaries. Theory and Evidence, Journal of Economic Behaviour and Organisation 11, 1- 25.

Graham, E.M. (1998) Market structure and the multinational enterprise: A Game- theoretic approach, Journal of International Business Studies, 29(1), pp. 67- 83.

Greene, William H. (1997) Econometric Analysis, 3rd edition, London: Prentice Hall International, Inc.

Grimwade, N. (1989) International Trade: new patterns of trade, production and investment, Routledge, London.

Grosee, R. and J. Behrman (1992): Theory in International Business, Transnational Corporations 1, 93- 116.

Grubaugh, Stephen G. (1987): Determinants of Direct Foreign Investment, Review of Economics and Statistics 69, 149- 152.

Halpern, L. (1997) An Analysis of the relationships of FDI and international competitiveness, mimeo, Institute of Economics, HAS.

Hamel, G., Doz, Y.L., and Prahalad, C.K. 1989. Collaborate with your competitors- and win. Harvard Business Review, 67(1):133- 139.

Harrigan, K. R. 1986. Managing for Joint Venture Success. Lexington, MA.: Lexington.
Harrigan, K. (1988), Joint Ventures and Competitive Strategy, Strategic Management Journal, vol. 9, 141- 158.

Harrigan, K. 1985. Strategies for joint ventures. Lexington, Mass.: Lexington Books.

Harrison, A. and Revenga, A. (1995) The effects of trade policy reform: what do we really know? NBER Working paper no. 5225.

Haufbauer, G., Lakdawalla, D. and Malani, A. (1994) Determinants of direct foreign investment and its connection to trade, UNCTAD Review 1994, pp. 39- 51.

Hennart, Jean- Francois. 1988. A transaction costs theory of equity joint ventures. Journal of International Business Studies, 9: 361- 74.

Hennart, J.F., A Theory of Multinational Enterprise, University of Michigan Press, Ann Arbor, MI, 1982.

Hennart, J.F. (1988) Upstream vertical integration in the aluminium and tin industries, A comparative study of the choice between market and intra-firm co-ordination, Journal of Economic Behaviour and Organisation 9, 281- 99.

Hennart, J.F (1991) The transaction cost theory of the multinational enterprises, in C.N Pitelis and R. Sugden (eds) The Nature of the Transnational Firm, London: Routledge, pp. 81- 116.

Hennart, J.F. (1995) Transaction cost theory and the free- standing firm, in Roberto Schiatarella (ed.): New challenges for European and international business, Proceedings, 22nd EIBA conference, Ubrino, pp. 21- 38.

Hennart, J. F. 1993: Explaining the Swollen middle: Why most Transactions are a mix of 'Market' and 'Hierarchy', Organisation Science 4, p. 529- 547.

Hennart, J.F. and Y.R. Park (1993): Greenfield vs. Acquisition: The Strategy of Japanese Investors in the United States, Management Science 39:9, p. 1054- 1070.

Hennart, J.F. and Y.R. Park (1994) Location, governance and strategic determinants of Japanese manufacturing investment in the US, Strategic Management Journal 15, 419- 36.

Hill, C., Peter Hwang and W. Chan Kim. 1990. An Eclectic Theory of the Choice of International Entry Mode. Strategic Management Journal, 11 (2): 117- 28.

Hill, C., and G.R. Jones. 1989. Strategic management: An integrated approach. Boston: Houghton Mifflin Co.

Hirsh, Seev. 1976. An international trade and investment theory of the firm. Oxford Economic Papers, 28: 258- 70.

Hirvensalo, I. (1993): Adaptation of Operation Strategies to Radical changes in Target markets. Finnish Operations in the Former USSR from 1976 until 1991. Proceedings of the Helsinki School of Economics and Business Administration, B-132.

Hoekman, B., Djankov, S., 1997. Determinants of the Export Structure of Countries in Central and Eastern Europe. The World Bank Economic Review 11, p. 471- 487.
Hladik J., International Joint Ventures, Lexington Books, Massachusetts, 1985.

Hoesch, D. (1998) Foreign direct investment in Central and Eastern Europe: Do mainly small firms invest? Discussion Paper No. 50, IFO Institute for Economic Research, Munich.

Hoinville, Gerald, Roger Jowell, Survey Research Practice, Heinemann: London, 1978.

Hood, N. and Young, S. (1979) The Economics of the Multinational Enterprise, London: Longman.

Horst, T. (1972) Firm and industry determinants of the decision to invest abroad: an empirical study, Review of Economics and Statistics, 54, 258-266.

Huber George, Daniel Power, 1985. Retrospective Reports of Strategic Level Managers. Strategic Management Journal, 6: 171- 180.

Hunya, G. (1997): Large Privatisation, Restructuring and Foreign Direct Investment, in: S. Zecchini (ed.): Lessons from the Economic Transition, Dordrecht: Kluwer, p. 275- 300.

Hunya, G. 2000. Recent FDI Trends, Policies and Challenges in South East European Countries, Research Report no. 273 The Vienna Institute for International Economic Studies.

Hunya, G. (2000): Recent FDI trends and challenges in SEE countries in comparison with other regions in transition, Paper presented at the Conference on: FDI in South East Europe: Implementing Best Policy Practices, Vienna, Austria, November 8-9, 2000.

Hymer, Stephen H. (1976): The International Operations of National firms: A Study of Direct foreign Investment, Cambridge, Mass.

Hymer S., The International Operations of National Firms: A Study of Direct Foreign Investment, MIT Press, 1960.

IMF, World Bank, OECD and EBRD (1991): A Study of the Soviet Economy, Paris: OECD.

IMF (2000) FYROM: Recent Economic Developments, IMF Staff Country Report no. 00/72, June 2000.

IMF (2001) Romania: Selected Issues and Statistical appendix, Country report no. 01/16, January.

IMF (2000) Albania: Statistical Appendix, Country Report no. 00/87, July.

IMF (2001) FRY: Membership and request for emergency postconflict assistance, Country Report no. 01/07, January.

IMF (2001) Bulgaria: Selected issues and statistical appendix, IMF country report no. 01/54, March.

IMF, 1999, The Economic Consequences of the Kosovo Crisis- Preliminary Assessment of External Financing Needs and the Roles of the IMF and World Bank in the International Response, April 16.

IMF, 1999, Economic Impact of the Kosovo Crisis on the Six Most Affected Neighbouring Countries- A Further Update, July 12.

IMF, 1999, Economic Prospects for the Countries of Southeast Europe in the Aftermath of the Kosovo Crisis, September 22.

Itaki, M. 1991. A Critical assessment of the eclectic theory of the multinational enterprise. Journal of International Business Studies, 22 (3): 445- 460.

Jackson, M. (1996) Restructuring Large enterprises in Central and Eastern Europe, COST/PHARE Programme, Leuven Institute for Central and East European Studies, Katholieke Universiteit Leuven, 2nd Workshop, Sofia, May.

Jackson, M. (2001) Intra- Balkan Trade and Economic Cooperation: Past Lessons for the Future, in G. Petrakos and S. Totev (eds.) The Development of the Balkan Region, Ashgate, Aldershot.

Jarillo, J.C. 1988. On strategic networks. Strategic Management Journal 9, p. 31- 41.

Jeon Y-D. (1992) The determinants of Korean Foreign Direct investment in manufacturing industries, Weltwirtschaftliches Archiv, 128, 527-542.

Juhl, P. (1979) On the sectoral patterns of West German manufacturing investments in less developed countries: the impact of firm size, factor intensities and protection, Weltwirtschaftliches Archiv, 115, 508-519.

Johanson J. and Mattson (1987) Interorganisation relations in industrial systems: a netwok approach compared with a transaction cost approach. Industrial Studies of Management and Organisation, 17.

Janger, A.R (1980), Organisation of International Joint Ventures, Report no. 787, New York: The Conference Board.

Jemison, D. B. and S.B. Sitkin (1986): Corporate Acquisitions: A Process Perspective, Academy of Management Review 11, p. 145- 163.

Jennings, D.F. and Seaman, S.L. 1994. 'High and Low Levels of Organisational Adaptation: An Empirical Analysis of Strategy, Structure and Performance'. Academy of Management Journal, vol. 13, no. 3, pp. 570- 598.

Johanson, J. and Jan- Erik Vahlne (1977): The Internationalisation Process of the Firm, A model of Knowledge Development and increasing Foreign Market Commitment, Journal of International Business Studies, 8, 23- 32.

Johanson, J. and F. Wiedersheim- Paul (1975): The Internationalisation of the Firm- Four Swedish Case Studies. Journal of Management Studies, 12: 3, 305- 322.

Kalton Graham, Sir Claus Moser, 1979, Survey Methods in Social Investigation, Gower, 2nd edition.

Karafotakis, V. 'Balkans: From Penetration to Economic Cooperation.' Nafteboriki, 18 December 1994, p. 13.

Karafotakis, V., Transbalkan Distribution Networks, paper presented at the International Forum for the Black Sea Co- operation, conference organised by the Hellenoc Centre for European Studies, Thessaloniki, 24- 26, November 1994. (in Greek)

Katseli, L. (1994): Strategy for the Establishment of a Balkan Regional Market. Paper presented at the 'Northern Greece and the Balkans: The time of entrepreneurial drive' conference, Thesaloniki, 4-5, April.

Kay, Neil M. (1991) Multinational enterprise as strategic choice: some transaction cost perspectives, in C.N. Pitelis and R. Sugden (eds.) The nature of the transnational firms, Routledge, pp. 137-54.

Killing, J. P. 1983. Strategies for Joint Venture Success. New York: Praeger.

Killing, P. J. " How to make a global joint- venture work ", Harvard Business Review, 60, May- June, 1982, pp. 120 –127.

Kim, L. and Yin, Y. 1988.' Environment, Generic Strategies, and Performance in a Rapidly Developing Country: A Taxonomic Approach'.

Kim, W. Chan and Peter Hwang (1992): Global Strategy and Multinationals' Entry Mode Choice, Journal of International Business Studies, 23, 29- 53.

Kindleberger, Charles P. (1969): American Business Abroad, New Haven: Yale University Press.

Knickerbocker, F.T., Oligopolistic Reaction and the Multinational Enterprise, Harvard University Press, 1973.

Known, Y.C and L.J. Konopa (1993). Impact of Host Country Characteristics on the Choice of Foreign Market entry Mode, International Marketing Review, 10, pp. 60- 76.

Kogut, B. and Singh, H., Entering the United States by Joint Venture: Competitive Rivalry and Industry Structure, in Cooperative Strategies in International Business, F. Contractor and P. Lorange (eds.), Lexington Books, Lexington, MA, 1988.

Kogut, B. and N. Kulatilaka (1994): Operating Flexibility, Global Manufacturing, and the Option Value of Waiting of a Multinational Network, *Management Science*, no.1.

Kogut, B. 1983. Foreign Direct Investment as a Sequential Process. In C. P. Kindleberger and D. B. Audretsch, editors, The Multinational Corporation in the 1980s. Cambridge, Mass.: MIT Press.

Kogut, B. 1988. Joint Ventures: Theoretical and Empirical Perspectives. Strategic Management Journal 8 (4), pp. 319- 332.

Kogut, Bruce and Harbir Singh (1988): The effect of National Culture on the Choice of Entry Mode, Journal of international business Studies 19, no. 3, 411- 432.

Kogut, B. 1996. Direct Investment, Experimentation, and Corporate Governance in TransitionEconomies, in: R. Frydman, C.W. Gray and A. Rapazynski (eds.): Corporate governance in Central Europe and Russia, vol. 1, London: CEU Press, p. 293- 332.
Kogut, Bruce and Udo Zander (1993): Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation, Journal of International Business Studies, 625- 645.

Kogut, Bruce and Udo Zander (1995): Knowledge, Market Failure and the multinational enterprise: A Reply, Journal of International Business Studies 26, 417- 426.

Konings, J. (1996): Foreign Direct Investment in Transition Economies, Leuven Institute for Central and East European Studies, Working Paper 56/ 1996.

Konings, J. and S. Janssens (1996), How do western companies respond to the opening of Central and East European Countries? Survey evidence from a small open economy- Belgium, Working paper, no. 60/1996, Leuven Institute for CEE Studies.

Korbin, S. Testing the bargaining hypothesis in the manufacturing sector in developing countries, in International Organisation, Autumn, 1987, pp. 609- 638.

Kornai, J. 1992. The Socialist System: The Political Economy of Communism. Princeton, NJ: Princeton University Press.

Kosta, J., J. Stouracova and M. Kostantinov (1993), Direct Investment from Germany to the Czech Republic, mimeo, Prague.

Kovacs, P. (1996), Strategy of Hungarian Sugar Corporation 1992- 1996, mimeo, Budapest Univesrsity of Economics, 'Competing the world' Research Project.

Kumar, K. and Subramaniam, V. (1997). A contingency framework for the mode of entry decision. Journal of World Business, 32(1): 53- 72.

Kumar, B.N. and Steinmann, H. (1991) Technology transfer by Western small and medium sized enterprises to developing countries, in M. Trevor (ed.) International business and the Management of Change, Aldershot: Avebury.

Labrianidis L. 2000. 'The investment activity of Greek companies in the CEE countries: The situation beyond the myth'. In Andrikopoulou E. and Kafkalas G. (eds.) Greece and the new European Space: the enlargement and the new geography of European Development. Themelio, Athens.

Labrianidis, L. 2000. The reconstruction of the Balkans and the role of Greece: a critical approach, in g. Petrakos (ed.) The development of the Balkans. University of Thessaly Publications, Volos, Greece.

Labrianidis L. 2000. 'Are Greek companies that invest in the Balkans in the '90s Transnational Companies?' In Mitsos A. and Mossialos E. (eds.) The contribution of a changing Greece to the European Union, European Institute LSE European Political Economy Series, Ashgate Press London.

Labrianidis, L., Kalantaridis C., Karagianni St., Katsikas I, Kourtessis, A. (1997), The Greek Industry and Developments in Central and Eastern Europe, Research Report Financed by the Ministry of Industry (In Greek).

Labrianidis, L. and Karagianni St. (2000) The pros and cons of SME going international: Greek companies in Bulgaria, Proceedings of Conference Integration and Economies in Transition, Chios, December 16- 18, Greece.

Lambrou, C. (1996). Penetrating in the Balkans. Oikonomikos Taxydromos, issue 20. p. 107.

Lankes, H. P., and Venebles, A., (1996) Foreign Direct Investment in Economic Transition: The Changing Pattern of Investments, Economics of Transition, 4, 331-347.

Lankes, Hans- Peter and Anthony Venebles (1996): Foreign Direct Investment in Economic Transition: The Changing Pattern of Investments, Economics of Transition 4, pp. 331- 347.

Lankes, Hans- Peter and Anthony Venebles (1996) FDI in Eastern Europe and the Former Soviet Union: Results from a Survey of Investors, Working Paper, EBRD.

Lankes, H.-P.; Stern, N. (1998) Capital Flows to Eastern Europe and the Former Soviet Union, EBRD Working Paper, 27

Langlois, R.N. (1992) Transaction- cost Economics in Real Time, Industrial and Corporate Change 1, 99- 127.

Lawrence, P. & Lorsch, J. 1967. Organizations and Environment. Cambridge, MA: Harvard Business Press.

Lazarsfeld Paul, 'The Controversy Over Detailed Interviews: An Offer for Negotiation', Public Opinion Quarterly, 8, 1944: 38- 60.

Lazarsfeld, Paul. 1966. Concept Formation and Measurement, in Concepts, theory and explanation in the Behavioural Sciences, ed. Gordon J. DiRenzo. New York: Random House.

Lecraw, D. J. 1984. Bargaining power, ownership, and profitability of subsidiaries of transnational corporations in developing countries. Journal of International Business 15: 27-44.

Lecraw, D. (1992). Multinational enterprises in developing countries. In: New directions in International business: Research Priorities for the 1990s. ed. P.J Buckley. London: Edward Elgar.

Legeza, E. (1997) Determining factors of vehicle and parts production's competitiveness', mimeo, Budapest University of Economics, 'Competing the world', Research Project.

Li. J., and Guisinger, S. Comparative business failures of foreign- controlled firms in the US, Journal of International business Studies, 22, 1991, 2, pp. 209- 224.

Lieberman and Montgomery (1998): First- mover (dis)advantages: retrospective and link with the resource- based view, Strategic Management Journal 19, p. 1111- 1125.

Lieberman and Montgomery (1988): First- mover advantages, Strategic Management Journal 9, p. 41- 58.

Lyles, M. A. & Salk, J. E. 1996. Knowledge acquisition from foreign parents in international joint ventures: An empirical examination in the Hungarian context. Journal of International Business Studies, 27(5 (Special Issue Supplement)): 877-903.

Makino, S. and P.W. Beamish (1998). Performance and Survival of Joint Ventures with non-conventional Ownership Structures, Journal of International Business Studies, 29 (4), pp. 797- 818.

Makino, S. Joint Venture Ownership Structure and Performance: Japanese Joint Ventures in Asia, Unpublished doctoral dissertation, Ontario: Western Business School 1995.

Mann Peter, H., Methods of Social Investigation, New York: Blackwell, 1985.

Marinov, M., Marinova, S. (1999) Foreign Direct Investment Motives and Marketing Strategies in Central and Eastern Europe, Journal of East-West Business, 1-2: 25-55.

Markusen, J.R. (1995) The boundaries of multinational enterprises and the theory of international trade, Journal of Economic Perspectives 9, no. 2, 169- 89.

Maroudas, L. (1995) FDI in Bulgaria, in Maroudas L., Trardanidis C.: The Greek- Bulgarian Relations: Contemporary economic and political dimensions, Papazissis, Athens, pp. 151-183.

McManus, J. 1972 The Theory of the International Firm. In G. Paquet (ed.). The multinational Firm and the nation state. Toronto: Collier, Macmillan, 66- 93.

Merton, R.K., Fiske, M. Kendall, P., The focused Interview. NY: The Free Press, 1956.

Meyer, K.E. (1997): Direct Foreign Investment in East Asia and in Eastern Europe: A Comparative Analysis, in: P. Artisien-Maksimenko and M. Rojec (eds.): Foreign Investment and Privatisation in Eastern Europe, MacMillan.

Meyer, K. E. 1998. Enterprise transformation and foreign investment in Eastern Europe. Journal of East-West Business, 4(1/2): 7-27.

Meyer, K.E. 2000. International Production Networks and Enterprise Transformation in Central Europe, Comparative Economic Studies 62 (1), p. 135-150.

Meyer, K. E. and I. Bjerg- Moller 1998. Managing Deep Restructuring: Danish Experience in Eastern Germany, European Management Review 16, p. 411- 421.

Meyer, K. E (2000): Institutions, Transaction Costs, and Entry Mode Choice in Eastern Europe, Working Paper no. 34, CEES, Copenhagen Business School.

Meyer, K. E. (1998), Enterprise Transformation and Foreign Direct Investment in Eastern Europe, Journal of East West Business, vol.4, pp.7- 27.

Mikelka, W. (1996), FDI in the Slovak Republic, Institute of Economics, Slovak Academy of Science, Bratislava.

Miles, R.E., Snow, C.C, Meyer, A.D. and Coleman, H.J. 1978. 'Organisational Strategy, Structure and Processes'. Academy of Management Review, vol.3, pp. 546- 562.

Miles, R.E, Snow, C.C. 1978. Organisational Strategy, Structure and Process. San Francisco: McGraw- Hill.

Miller, D. 1988. Relating Porter's Business Strategies to Environment and Structure: Analysis and Performance Implications. Academy of Management Journal, vol. 13. no. 2, pp. 280- 308.

Miller, J., S. Petranov (2000) The first wave of mass privatization in Bulgaria and its immediate aftermath, Economics of Transition, vol. 8 (1): 225- 250.

Miller, D. 1987. "Strategy Making and Structure: Analysis and Implications For Performance", Academy of Management Journal, vol. 30, no. 1, pp. 7- 32.

Mintzberg, H. 1979. The structuring of organisation. New York: Prentice Hall.

Monteverdi, K. and D.J. Teece (1982) Supplier Switching Costs and Vertical Integration in the Automobile Industry, Rand Journal of Economics, p. 206- 213.

Murrell, P. (1992): The Evolution in Economic and the Economic Reform of the Centrally Planned Economies, in C.C. Clague and G. Rausser (eds): The emergence of Market Economies in Eastern Europe, Cambridge, MA: Blackwell, pp. 35- 53.

Murrel, P. (1992): Comment: Multinational Corporations in the East European Transformation, in: M.W. Klein and P.J.J Welfens: Multinationals in the new Europe and Global Trade, Berlin: Springer, pp. 153- 161.

Myers, S. and N. Majluf (1984): Stock Issues and Investment Policy when Firms have Information that Investors do not have, *Journal of Financial Economics* 13, p. 187-222.

Nahavandi, A. and Maleksadeh, A., Acculturation in mergers and acquisitions, Academy of Management Review 13, 1988, 1, pp. 79- 90.

Nakamura, M. and Xie, J. (1998) Non-verifiability, non- contractibility and ownership determination models in FDI with an application to foreign operations in Japan, International Journal of Industrial Organisation, vol. 16, no.4, pp. 571- 599.

Nakamura, M. and Yeung, B. (1994) On the determinants of foreign ownership shares: evidence from US firms' joint ventures in Japan, Managerial and Decision Economics, vol. 15, no. 2, pp. 95- 106.

Narula, R. (1994) Locational Determinants of Inward and Outward FDI Activity, MERIT Research Memorandum, 25: 23.

Naman, J.L. and Slevin, D.P. 1993. 'Entrepreneurship and the Concept of Fit: A Model and Empirical Tests'. Strategic Management Journal, vol. 14. pp. 137- 153.

Neale, C.W. and D. Shipley (1990): Empirical Insights into British Counter trade with Eastern Bloc Countries, International Marketing Review 7, no. 1, p. 15- 31.

Newman, Karen. 1998. Radical versus Incremental Change: The Role of Capabilities, Competition and Leaders, in: D. Denison, ed.: Managing Organisational Change in Transition Economies.

Newman, K. L. & Nollen, S. D. 1998. Managing Radical Organizational Change: Company Transformation in Emerging Market Economies. Thousand Oaks, CA: Sage Publications.

Nitsch, Detlev, Paul Beamish and Shige Makino (1996): Entry Mode and Performance of Japanese FDI in Western Europe, Management International Review 36, 27- 43.

Nordstrom, K. (1991): The Internationalisation Process of the Firm- Searching for New Patterns and Explanations, Stockholm: Institute of International Business.

OECD (1994): Assessing Investment Opportunities for Foreign Investors in Eastern Europe, Paris: OECD.

OECD (1997): International Direct Investment Statistics Yearbook, Paris: OECD.

OECD-CCET (1994) Trends and Policies in Privatisation, vol.2, no.1, Paris.

OECD- CCET (1995), Trends and Policies in Privatisation, vol.2, no.1, Paris.

OECD- CCET (1997) Economic Surveys: Bulgaria, Paris.

OECD (1995): Assessing Investment Opportunities in Economies in Transition, Paris: OECD.

OECD (2002), "Trends and Recent Developments in Foreign Direct Investment"

Ozawa, Terutomo (1992): Foreign Direct Investment and Economic Development, Transnational Corporations 1, 27- 54.

Ozawa, Terutomo (1979): International Investment and Industrial Structure: New Theoretical Implications from the Japanese Experience, Oxford Economic Papers 31, 72- 92.

Paliwoda, S. (1993). International Marketing. Oxford: Butterworth, Heinemann.

Paliwoda, S. (1995). Investing in Eastern Europe: Capitalising on Emerging Markets. Addison Wesley.

Pan, Y., S., Li., D. Tse (1999) The impaxt of order and mode of market entry on profitability and market share. Journal of International Business Studies, vol. 30, p. 81.

Pan, Y. and P.S.K. Chi (1999). Financial Performance and Survival of Multinational Corporations in China, Strategic Management Journal, 20, pp. 359- 374.

Parkhe, A. (1993): 'Messy' Research, Methodological Predispositions, and Theory Development in International Joint Ventures, Academy of Management Review 18, p. 227-258.

Parry, T.G. 1985. Internationalisation as a general theory of FDI: A critique, Weltwirtschaftliches Archiv, September: 564- 69.

Pepelasis, D. (1996). Greek Investments in the Balkans: Define Objectives and Constraints. Oikonomikos Taxydromos, issue 30. p. 75. (In Greek).

Petrochilos, G.A,"Theory, Policy & Practice of Greek Outward Foreign Direct Investment", in Business and Economics for the 21st Century, Vol. 1, B & E.S.I. Conference, Athens, July 1997.

Petrochilos, G.A. (1997) Explaining Greek outward FDI: A case of regional economic integration, paper presented in the Regional Studies Association Regional Frontiers Conference in Frankfurt, September.

Perakaki, M. (2000) Greek outward FDI in the Balkans and Eastern Europe, Dissertation under the supervision of Dr. Marina Papanastassiou, AUEB, Department of International and European Economic Studies.

Peng, M. 1993. Blurring Boundaries: The Growth of the firm in Planned Economies in Transition. Paper presented at the annual meeting of the academy of International Business. Hawaii.

Penrose, E. (1959): The Theory of the Growth of the Firm, London: Basil Blackwell.

Petrakos G. and Totev, S. (2000) Economic Structure and Change in the Balkan Region: implications for integration, transition and economic cooperation, International Journal of Urban and Regional Research, vol 24 (1): 95- 113.

Petrakos G. (1996). The new Geography of the Balkans: Cross- border cooperation Between Albania, Bulgaria and Greece. Series on Transition in the Balkans, University of Thessaly.

Petrakos G. (1996). The regional dimension of transition in Eastern and Central European countries: An assessment, in Jackson and Petrakos (eds.), Regional Problems and SME development in transition economies, Eastern European Economics, vol. 34, no.5, pp. 5- 38.

Petrakos G. (1996) Industrial Structure and Change in the European Union: Comparative Analysis and Implications for Transition Economies, Discussion Paper Series, 96-04, Department of Planning and Regional Development, University of Thessaly.

Petrakos G. (2001) Greece and the Balkans: Geography Lost and Found, in G. Petrakos, S. Totev, (eds.) The Development of the Balkan Region, Ashgate, Aldershot, pp. 439- 462.

Petrakos, S. Totev, (2001), (eds.) The Development of the Balkan Region, Ashgate, Aldershot.

Pfeffer, Jeffrey and Gerald R. Salancik (1978). The external control of organisations: A resource dependence perspective. New York: Hamper and Row.

Pinto, Brian, Marek Belka and Stefan Krajewski.1993. "Transforming State Enterprises in Poland: Evidence on Adjustment by Manufacturing Firms," Brookings Papers on Economic Activity no 1, pp. 213-270.

Pitelis, C. and Iammarino, S., (1999) FDI and Less Favoured Regions: Greek FDI in Bulgaria and Romania, Working paper no. 18, Judge Institute of Management Studies, University of Cambridge.

Plasoning, G., Buchleitner, K. (1991) Joint Ventures: Bridge Between East and West, in Razvigorova, E. and Wolf- Laudon, G. (eds.) East- West Joint Ventures: The New Business Environment, Blackwell, pp. 41- 55.

Pohl, Gerhard, Robert E. Anderson, Stijn Claessens, Simeon Djankov (1997): "Privatisation and Restructuring of Industrial Firms in Central and Eastern Europe: Evidence and Policy Options ", World Bank technical paper, no. 368.

Pohl, Gerhard, Simeon Djankov, and Robert Anderson. 1996. Restructuring of Large Industrial Firms in Central and Eastern Europe: An empirical Analysis, Technical Paper 332. Washington DC: The World Bank.

Porter, Michael E. (1990), The Competitive Advantage of Nations, London: MacMillan.

Porter, Michael E. (1987). From competitive advantage to corporate strategy. Harvard Business Review, 65(3): 43- 59.

Porter, M.E. 1980. Competitive strategy: Techniques for analysing industries and competitors. New York: The Free Press.

Porter, M.E. 1985. Competitive Advantage. New York: The Free Press.

Porter, Michael E. and Mark B. Fuller. 1986. Coalitions and global strategy, in M. Porter, (ed.) Competition in global industries. Boston: Harvard Business School.

Prahalad, C. K. and Richard A. Bettis. 1986. The dominant logic: A new linkage between diversity and performance. Strategic Management Journal, 7(6): 485- 501.

Prahalad, C.K. and Gary Hamel (1990): The Core Competence and the Corporation, Harvard Business Review, May, 71- 91.

Padmanabhan, Prasad and Kang Rae Cho (1996): Ownership Strategy for a Foreign Affiliate: An Empirical Investigation of Japanese Firms, Management International Review 36, 45- 65.

Pye, Robert (1998): Foreign Direct Investment in Central Europe: Experiences of Major Western Investors, European Management Journal 16, p. 378- 389.

Pye, Robert (1997): Foreign Investment in Central Europe: Results from a Survey of Major Western Investors, City University Business School, Finance Working Paper: A.97/1, London, April.

Ramamanathan, K, A. Seth and H. Thomas 1997. Explaining joint ventures, in: P.W. Beamish and J.P. Killing, eds: Cooperative Strategies: North American Perspectives, San Francisco: Lexington, p. 51- 85.

Reid, S. (1981). The decision–maker and export entry and expansion. Journal of International Business Studies, 12:2, 101–112.

Riordan, M and O. Williamson. 1985. Asset specificity and economic organisation. International Journal of Industrial Organisation, 3: 365- 378.

Rivoli, P., Eugene Salorio. 1996. Foreign Direct Investment Under Uncertainty. Journal of International Business Studies. p. 335- 357.

Rizopoulos, Y. (1995) Competitive constraints and western firms' strategies in Bulgaria, in Maroudas L., Trardanidis C.: The Greek- Bulgarian Relations: Contemporary economic and political dimensions, Papazissis, Athens, pp. 185- 217.

Rizopoulos, y. (2001) FDI and Western Firms' Internationalisation Strategies in the Balkan Countries, in G. Petrakos, S. Totev, (eds.) The Development of the Balkan Region, Ashgate, Aldershot, pp. 75- 111.

Rojec, M. and M. Svetlicic (1993): Foreign Direct Investment in Slovenia, Transnational Corporations 2, 135- 51.

Root, F. R. (1987): Entry Strategies for International Markets. D. C. Heath, Lexington, MA.

Root, F. R. (1983): Foreign Market Entry Strategies, New York: Amacon.

Ross, S., Westerfield, R., Jordan, B. (1995): Fundamentals of Corporate Finance, Chicago: Irwin.

Rugman, Alan M. (1981): Inside the Multinationals: The Economics of Internal Markets, London: Croom Helm.

Rugman, Alan M. 1981. Inside the Multinationals: The Economics of Internal Markets. New York: Columbia University Press.

Rugman, A. M. 1986. New theories of the multinational enterprise: An assessment of internalisation theory. Bulletin of Economic Research, 38: 101- 118.

Rugman, A. and A. Verbeke (1992). A note on the transnational solution and the transaction cost theory of multinational strategic management. Journal of International Business 23:4.

Rugman, A. and A. Verbeke (1993) (eds.) Research in global strategic management: Beyond Porter. Greenwich, CT: JAI Press.

Rugman, A.M. 1985. Internalisation is still a general theory of FDI? Weltwirtschaftliches Archiv, September: 570: 75.

Rugman, A.M. (1979) International diversification and the multinational enterprise. Lexington, MA: Lexington Books.

Rugman, A.M. 1982. Internalisation and non- equity forms of international involvement. In Rugman, A.M. (ed.) New theories of the multinational enterprise. London: Croom Helm.

Sarantopoulos, K. (1994). Long- Term Prospects of the Greek Investments in the Balkans. Oikonomikos Taxydromos, issue 42. p. 83. (In Greek).

Schwenk, C.R. 1988. The Essence of Strategic Decision Making. Lexinton Books, USA.

Seimanidi- Veliou, A. (1996). Considerations for Investing in Albania. Oikonomikos Taxydromos, issue 12. p. 14 (In Greek).

Seimanidi- Veliou, A. (1996). Albania: New Investment Activities. Oikonomikos Taxydromos, issue 41. p. 54 (In Greek).

Shama, A 1995. Entry Strategies of US Firms to the Newly Independent States, Baltic states, and Eastern European Countries. California Management Review, vol. 37. no. 3, pp. 90- 107.

Sharfman, M.P. and Dean, J.W (1997) Flexibility in Strategic Decision Making: Informational and Ideological Perspectives. Journal of Management Studies, vol. 34, no.2, pp. 191- 217.

Shaukat, Ali and Hafiz, Mirza (1996). Market- entry, motives and performance in Central Europe: the case of British firms. Proceedings of the University of Vaasa. Reports 18, 257- 277.

Shaukat, A. (1997). Market-Entry, Motives and Performance in Central Europe: The Case of British Firms. Journal of East-West Business, Volume 3, (2), 63–82.

Shelanski, H. A. and P. G. Klein 1995: Empirical Research in Transaction Cost Economics: A Review and Assessment, Journal of Law, Economics and Organisation 11, p. 335- 361.

Simon, Julian, L. Basic Research Methods in Social Science, Random House: New York, 1969.

Simmonds, P.G. (1990). The Combined Diversification Breadth and Mode Dimensions and the Performance of Large Diversified Firms, Strategic Management Journal, 11, pp. 399- 410.

Snow, C.C and Thomas, J.B. 1994. 'Field Research Methods in Strategic Management: Contributions to Theory building and Testing'. Journal of Management Studies, vol. 31, no. 4, pp. 457- 480.

Stalk, George, P.Evans and L. E. Shulman. 1992. Competing on capabilities: The new rules of corporate strategy. Harvard Business Review, 70 (2): 57- 69.

Stern, Nicholas, 1998, The Future of the Economic Transition, EBRD Working Paper no. 30, London, July.

Stiglitz, Joseph (1999) Whither reform? Ten years of the transition. Key Note Address at the Annual World Bank Conference on Development Economics, Washington: World Bank.

Stinchcombe, A. 1990: Information and Organisations, Berkeley: University of California Press.

Stopford, J. and L.D. Wells Jr. 1972. Managing the Multinational Enterprise: Organisation of the firms and Ownership of the subsidiaries, New York: Basic Books.

Szanyi, M. (1995), 'Experiences with FDI in Hungary', Russian and East European Finance and Trade, 31 (3), May- June, p. 6- 31.

Svejnar, J. and Smith, S. (1984) The economics of joint ventures in less developed countries, Quarterly Journal of Economics, vol. 99, no. 3, pp. 149- 167.

Svetlicic, Marjan and Rojec, Matija. (1994/4). Foreign Direct Investment and the Transformation of Central European Economies. Management International Review, vol. 34, pp. 293- 312.

Swedenborg, B. (1979): The Multinational Operations of Swedish Firms: An Analysis of Determinants and Effects, Stockholm: Industriens Utredningsinstitut.

Tallman, S. B. 1991. Strategic management models and resource based strategies among MNEs in a host market. Strategic Management Journal, 12: 69- 82.

Tan, J. J. & Litschert, R. J. 1994. Environment-strategy relationship and its performance implications: An empirical study of the Chinese electronics industry. Strategic Management Journal, 15(1): 1-20.

Taylor. S.J. And Bogdam R. (1996). Induction to the qualitative methods of investigation, Paidós, Barcelona.

Teece, David (1986): Transaction Cost Economics and the Multinational Enterprise, Journal of Economic Behaviour and Organisation 1, 21- 45.

Teece, D. 1986. What is internalisation? Weltwirtschaftliches Archiv, 122: 791- 804.

Teece, David J. 1982. Towards an economic theory of the multi-product firm. Journal of Economic Behaviour and Organisation, 3: 147- 158.

Teece, D.J. 1981. The multinational enterprise: Market failure and market power considerations. Sloan Management Review, 22: 3- 17.

Terpstra, Vern and Chwo- Ming Yu. 1988. Determinants of foreign investment of US advertising agencies, Journal of International Business Studies, 19 (Spring): 33- 46.

Thornton, J. and N.N Mikheeva 1996: The Strategies of Foreign and Foreign- Assisted Firms in the Russian Far East: Alternatives to Missing Infrastructure, Comparative Economic Studies 38, no. 4, p. 85- 120.

Toyne, B. 1989. International Exchange: A Foundation for Theory Building in International Business. Journal of International Business Studies, 20: 1- 17.

Turnbull, P. W. (1987). A challenge to the stages theory of the internationalisation process. In: Managing export entry and expansion. Ed. P. J. Rosson and S. D. Reed. NY: Praeger.

Uhlenbruck, K. 1997. Entry Motives and Firm Capabilities: Performance Implications for Foreign Direct Investment in Central and Eastern Europe. Academy of Management Best Paper Proceedings: 204- 208.

Uhlenbruck, K. & De Castro, J. O. (2000) Foreign Acquisitions in Central and Eastern Europe: Outcomes of Privatization in Transitional Economies. Academy of Management Journal, vol.43 (3),pp. 381- 402.

Uhlenbruck, K. and J. DeCastro (1998): Privatisation from the Acquirer's Perspective: A Mergers and Acquisition Based Framework, Journal of Management Studies 35, p. 619- 640.

UNCTAD, World Investment Report 1998, Trade and Determinants, 1998.

UN/ECE (1993), Statistical Survey of Recent Trends in Foreign Investment in East European Countries

UN- ECE (1997) Economic Survey of Europe in 1996- 1997, New York and Geneva.

UN/ECE, Economic Bulletin for Europe, vol. 43 (1991)

UN/ECE, Economic survey of Europe, 1999 No.1.

UNITED NATIONS (1998) World investment report, Geneva: United Nations.

UNCTC (1992), World Investment Directory, Vol. 2, Central and Eastern Europe, UN

UNCTC, 1988, "Transnational Corporations in World Development: Trends and Prospects", United Nations, New York.

UN (1994) World Economic and Social Survey. New York: United Nations Secretariat.

United Nations (1999): World Investment Report: Foreign Direct Investment and the Challenge of Development

Uvalic, M. (2001) Federal Republic of Yugoslavia, in T. Veremis and D. Daianu (eds.) Balkan Reconstruction, Frank Cass: London.

Venkatraman, N. and Grant, J.H. 1986. 'Construct Measurement in Organisational Strategy Research: A Critique and Proposal'. Academy of Management Review, vol. 11, no. 1, pp. 71- 87.

Veremis, T. and Daianu, D. (eds.) (2001). Balkan Reconstruction, Frank Cass, London

Vernon, R., "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics, Vo. 80, 1966, pp. 190-207.

Vernon, Raymond (1983) 'Organisational and institutional responses to international risk' in Herring, R.J. (ed.), Managing International Risk, Cambridge, Mass.: Cambridge University Press.

Wang, Zhen Quan (1993): Foreign Direct Investment in Hungary: A Survey of Experience and Prospects, Communist Economies and Economic Transformation 5, 245- 253.

Webb, J. and Dawson, P. 1991. 'Measure for Measure: Strategic Choice in an Electronic Instruments Corporation'. Journal of Management Studies. vol. 28, no. 2, pp. 191- 206.

Wernerfelt, B. 1984. A resource-based view of the firm. Strategic Management Journal, 5(Apr.-June): 171-80.

World Bank. 1996. World Development Report: From Plan to Market. New York: OUP.

Williamson, O.E. 1992. Markets, hierarchies, and the modern corporation: An unfolding perspective. Journal of Economic Behaviour and Organisation, 17: 335- 352.

Williamson, O.E. 1985. The economic institutions of capitalism. New York: The Free Press.

Williamson, O. E. 1991. Comparative economic organisation: The analysis of discrete structural alternative. Administrative Science Quarterly, 36: 269- 296.

Williamson, O.E. 1981. The economics of organisation: the transaction cost approach, American Journal of Sociology, 87(3), 548- 577.

Williamson, O.E. 1981. The modern corporation: origins, evolution, attributes, Journal of Economic Literature 19, p. 1537- 68.

Williamson, O.E. 1979. Transaction cost economics: the governance of contractual relations, Journal of Law and Economics, 22, pp. 233- 62.

Williamson, O.E. (1975): Markets and Hierarchies: Analysis and Antitrust Implications, New York: Free Press.

Wilson, Brent (1980): The Propensity of Multinational Companies to Expand through Acquisitions, Journal of International Business Studies 12, no. 2, 59- 65.

Woodcock, C.P., Beamish, P. and Makino, S., Ownership-Based Entry Mode Strategies and International Performance, Journal of International Business Studies, 25, 1994, 2, pp. 253-273.

Yin, R.K. 1994. Case Study Research, Design and Methods, Second Edition. Sage Publications, Thousand Oaks.

Yip, G. 1982. Diversification Entry: Internal Development Versus Acquisition. Strategic Management Journal, 3: 780- 800.

Yip, George. 1982. Gateways to entry. Harvard Business Review, September- October: 85-92.

Young, S., J. Hamill, C. Wheeler and J. R. Davies (1989). International Market Entry and Development: Strategies and Management. London: Prentice- Hall.

Yu Chwo- Ming and Kiyohiko Ito. 1988. Oligopolistic reaction and foreign direct investment: The case of the US tire and textile industries. Journal of International Business Studies, 19 (Fall): 449- 60.

Zejan, Mario C. (1990): New Ventures or Acquisitions. The Choice of Swedish Multinational enterprises, Journal of Industrial Economics 38, 349- 355.

Zemplinerova, A., Lastovicka, R., Marcincin, A. (1995) Restructuring of Czech Manufacturing Enterprises: An Empirical Study, PHARE- ACE Programme 1994: Obstacles to Restructuring in Eastern Europe.

FACULTY *of* SOCIAL SCIENCES

DEPARTMENT OF BUSINESS STUDIES

William Robertson Building
50 George Square
Edinburgh EH8 9JY
UK
Telephone: +44131 6504311
E-mail: constantinos.choromides@ed.ac.uk

Questionnaire Survey: The questionnaire must be returned before the 1st of October 2000. If you cannot return the questionnaire before the 1st of October 2000, please contact Constantinos Choromides at the above address.

The answers that you will provide are strictly confidential and for no reason will be forwarded to any third parties. Your answers and supportive material will be used for academic purposes only! If you require an analysis of the questionnaire, please indicate that in your response. If you have any further questions regarding the confidentiality of the questionnaire please do not hesitate to contact professor John S. Henley, Head of the Department at the above address.

I would like to thank you in advance for your co- operation.

Constantinos Choromides
Ph.D. Candidate, University of Edinburgh

Promoting Excellence

A. Company's Industrial Structure

1. Using the scale below please indicate the degree of competition faced by your company for its major products in Greece?
   (moderate competition) 5 4 3 2 1 0 (no competition)

2. Using the scale below please indicate the degree of competition faced by foreign competitors in the Greek market.
   (very high) 5 4 3 2 1 0 (very low)

3. Which of the following closely resembles the formal organisation of your company?
   - Parent company in Greece to which all subsidiaries report
   - International division (all subsidiaries report to one international division)
   - Geographical divisions
   - Other (please specify)

4. What pattern does your company follow for its major international operations?
   - Operations are integrated across borders
   - Subsidiaries operate as local companies with little relationships with other subsidiaries.
   - Other (please specify)

B. Company's Perception of the Balkan markets

1. How important is the opening of the Balkan markets for your industry?
   (Very important) 5 4 3 2 1 0 (not important)

2. Before your company decided to carry out operations in the Balkans after the reforms (1989) what was your company's prior experience in the Balkans?
   (No experience) 0 1 2 3 4 5 (Great experience)

3. What kind of activities did you have in the Balkans before 1989?
   - Exports
   - Sub- contracting
   - Imports
   - Turnkey projects
   - Co- production
   - Others (please specify)

4. For your main products involved in the Balkans, how high do you think is the market potential?
   (very high) 5 4 3 2 3 2 1 0 (very low)

5. For your main products involved in the Balkans, how high do you think is the growth potential?
   (very high) 5 4 3 2 1 0 (very low)

6. Which of the following closely resembles your products in different Balkan markets?
   - Products are offered in each country tailored to local needs
   - Products are standardised with minimum local adaptation
   - Other please specify

7. For your industry involved in the Balkans at what stage is the industry's life cycle?
   (Declining) 5 4 3 2 1 0 (Introduction)

8. For your industry involved in Greece at what stage is the industry's life cycle?
   (Declining) 5 4 3 2 1 0 (Introduction)

9. At what stage of development were your main products when introduced to the Balkan markets?
   (Declining) 5 4 3 2 1 0 (Introduction)

10. Please choose the statement that closely resembles your prices for your products in the Balkans?
    - Prices were reduced to levels far below cost in order to survive in those markets
    - Prices were set to satisfy consumers' needs, but more importantly to achieve a return on the capital invested.
    - Prices were set lower than competitors' so as to keep competitors at a distance.
    - Prices were set lower to prevent other competitors from entering the market.
    - Prices were set to indicate unique value of product.
    - Prices were set to generate a high cash flow.
    - Other (please specify)

C. International Activities- Investment History

1. Are you currently doing business in the Balkans?
   Yes No

2. If yes, do you export or you have invested in the Balkans?

3. When the Balkan operation (s) established?

4. How important were competitors' actions in your decision to invest? Were you either following or aiming to pre- empt competitors?

5. What product or service does this business involve?

6. Is your company itself a subsidiary of a foreign company located in Greece?

7. What organizational (entry mode) form did you use to enter the Balkans?
   - Acquisition
   - Joint Venture
   - Greenfield

8. What are the most important factors for choosing joint venture? Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.

   - Slow pace and complexity of the evolution of the economic and legal framework regulating acquisitions
   - Only route available
   - Partner for political reasons
   - Perceived local or national identity of the venture
   - Partner for business acumen
   - Fast market entry
   - To increase sales to the local market
   - To obtain a superior profit
   - To achieve greater control
   - Partner's labour force
   - To safeguard company's interests
   - To overcome entry barriers
   - Tap distribution channels
   - Way to purchase only parts wanted
   - Avoid potential liabilities and debt

9. What are the most important factors for choosing acquisition? Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.

   - To purchase market share
   - To overcome entry barriers
   - Take better advantage of synergies

- To bring direct control over marketing
- To increase sales to local markets
- To obtain superior profit
- To achieve greater control over execution of the project
- To safeguard companies interests
- To achieve first mover advantages
- To access distribution channels
- To control knowledge transfers

10. What are the most important factors for choosing greenfield? Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.

- Could reemploy resources
- Could not find a suitable partner
- Avoided restructuring costs
- Avoiding labour redundancy issues
- Costs of upgrading to Greek standards too high
- Could not reach agreement with government- negotiating partner
- Could not establish clear ownership
- Could not establish clear corporate governance

11. If acquisition or joint venture; was the entry mode part of privatisation programme?
Yes? No? (please tick)

12. What type of activity is involved in your Balkan subsidiary?
    - Manufacturing (Supply export demand)
    - Manufacturing (Supply local demand)
    - Sales outlet
    - Other (please specify)

13. What is your strategic approach to the Balkans?
    - Country specific strategy/ case by case
    - Regional strategy
    - Overall regional strategy with country specific emphasis
    - Opportunity basis
    - No defined strategy
    - Other (please specify)

14. Did your strategic approach changed during time? If yes, how and why?

D. Key Investment Concerns

1. Primary reasons for investing in the Balkans

	Albania	Bulgaria	FYROM	Romania	Yugoslavia
Establishing market share					
Tap the regional market					
Low- cost sourcing					
Low- cost labour					

Concerns are ranked from 1 to 5; 1 being the least important and 5 extremely important.

2. Attractions and Obstacles of Local Environments

Attractions	Market Projects	Factor Cost Projects
Market Attraction		
Factor Costs		
Institutional Framework		
Partner and People		
Absence of Competition		
Obstacles	Market Projects	Factor Cost Projects
Investment Risk		
Institutional Framework		
Partner and People		
Economic Environment		

Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important

3. Motives for investing in the Balkans.

Motives	Importance
Aggressive	
A. Market induced	
1. Market opportunities in the Balkans	
2. To create an export base for countries in W. Europe	
3. To create an export base for countries in E. Europe	
4. To gain first mover advantages- establish market share	
B. Company induced	
1. To follow customers	
2. Comparative material cost advantage	
3. To obtain a superior profit	
4. Comparative labour costs advantage	
5. Source of raw materials	
Defensive	
A. Market induced	
1. To protect existing markets	
2. To increase their competition in Greek and/or international market	
3. Because of full capacity at home	
B. Company induced	
1. Diversification of risk	
2. Utilise technological knowledge	

Importance of each factor: 1= not at all important, 2= not very important, 3= quite important, 4= very important, 5= extremely important.

4. Perceptions of Risks to Greek Companies

Risks	Investment Activity	No Investment Activity
Business risks		
Uncertainty about economic prospects		
Risk of expropriation		
Risk of political instability		
Exchange rate risks		
Inadequate physical infrastructure		
Inadequate commercial infrastructure		
Legal uncertainties		

Levels of importance: 1=very unimportant, 5 very important.

5. What factors affected your decision not to invest in the Balkans (Levels of importance: 1=very unimportant, 5 very important)?

- Business risks are too high
- Insufficient information about the local markets
- No appropriate partner was found
- Financial constraints
- Political environment too uncertain
- Lack of physical infrastructure
- Legal system too ambiguous
- Negotiation with local authorities too difficult
- Markets can be served from facilities outside Balkans
- Expected demand for goods too low
- Competition too intense
- Cost of production too high
- Prefer to invest elsewhere
- Outside of the company's scope

E. Investment and Internal Organisation of Production

1. Do you finance your investments from a domestic bank? Yes No (please tick)

2. Investment was financed by:
   - Cash Flows
   - Bank Financing
   - EU programmes
   - Equity

3. Give an account of the division of responsibilities between the head office and the subsidiaries.

4. To what extent do subsidiaries have decision- making powers?

5. Describe the communication structures within the firm. How is information gathered and processed?

6. What are the major functions undertaken by the subsidiaries.

7. How was the organisation of production changed?
   - Significant change in organisation structure of the firm
   - Rationalisation of production
   - Improvement in marketing, distribution network was created
   - Changes in basic phase of production
   - Some changes (please specify)
   - No changes

8. How was the production programme changed?
   - Completely different products from before
   - Innovated products in the original branch
   - The same products as before

9. The change in market share of your firm
   - Significant decrease
   - Decrease
   - No significant change
   - Increase
   - Significant increase

10. How did the competitiveness of your markets change?
    - A significant rise of competition
    - A rise of competitiveness
    - No change
    - Decline of competitiveness
    - Significant decline of competitiveness

11. If the competitiveness of your markets changed, what was your reaction?

12. How was your organisation structure changed? (please specify)

13. How was the organisation of production changed? (Mark one to three possibilities)
    - significant change in organisation structure of the company
    - rationalisation of production
    - changes in basic phase of production
    - some changes
    - no changes

14. How was the quality control changed?
    - completely new approach
    - more serious attempt
    - some small changes
    - no changes

15. Who are your main competitors?
    - small private companies
    - large private companies
    - state- owned companies
    - foreign companies based in the same country as your company
    - foreign companies importing in the same country as your company
    - we do not feel any competition

16. How do you approach the issues of transferring technologies and know- how to Balkan subsidiaries?

17. What difficulties have you encounter in transferring technologies and know- how to Balkan subsidiaries?

18. Number of employees was
    - decrease
    - remain the same
    - rise

19. Production of your company was
    - decrease
    - remain the same
    - rise

20. Your company is orientated on
    - upper end of market
    - middle series
    - lower end market
    - mainly domestic market
    - mainly foreign market

21. How you would describe your relations with your suppliers?

22. Do you purchase suppliers locally or internationally?

F. Ownership Advantages of Investing Companies

Regarding the ownership characteristics of your company please provide the following information:

TDEBT: Total debt/ total assets in the year prior to investment in the Balkans.

LDEBT: Medium & long- term debt/ total assets in the year prior to investment in the Balkans.

SIZE: Total capitalisation of the company in the year prior to investment in the Balkans.

GROWTH: Growth rate of sales in the year prior to investment in the Balkans.

LABOUR: Number of sales/employees in the year prior to investment in the Balkans.

INTL_T: Value of exports/ sales in the year prior to investment in the Balkans.

GEOGR: The number of different geographical markets the company is active in the year prior to investment in the Balkans.

SIZE: The affiliates' capital in the year of the investment.

INV: Total assets to sales in the relevant company in the year prior to investment in the Balkans.

PRF: The operating profit margin over the year prior to investment in the Balkans.

GROWTH: Growth rate of sales turnover over the year prior to investment in the Balkans.

R&D: R&D expenditures over sales in the year prior to investment in the Balkans.

RESRC: Dummy variable equal to 1 if the main economic activity of the company is in a resource- intensive industry and 0 otherwise.

LABOUR: Number of sales/employees in the year prior to investment in the Balkans.

ADVERT: Sales expenditures over sales in the year prior to investment in the Balkans.

GEOGR: The number of different geographical markets the company is active in the year prior to investment in the Balkans.

D. Company Adjustment, Restructuring and Performance

The available funds for investment in the Balkan subsidiary were directed to (in terms of investment intensity- 1; no resource commitment, 2; low resource commitment, 3; high resource commitment; 4 very high resource commitment):

1. Internal organisation

Providing independence to the subsidiary

2. Product market

Establish new production facilities

Buy new equipment

Upgrade existing products

Export products to foreign markets

Develop new products

3. Labour markets

Maintaining excess employment

4. Investment

Capital investment programme

Invest in establishing distribution network

Training

New Technology

Please indicate whether your subsidiary in the Balkans is generating a profit or loss.

Thank you very much for completing this questionnaire! In the second stage, this research shall deepen the analysis in the Balkans in a series of interview with managers. These interviews with individuals actively involved in business with the region will take no more than 60 minutes and focus on your actual business activities and investment motivations. We would very much appreciate your cooperation in this research, and will provide participants with its results.

Would you or a suitable colleague be willing to participate in an interview for this research? If yes provide your details.
Company:
Contact person:
Title:
Address:
Telephone:
Mobile:
Fax:
E- mail:

Table 1. Construction Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
146203200	61149780	13514050	334922120	997	71847770	27.00	16330998	14
40700000	56016455	0	270082373	1000	120875395	41.13	26471711	16
11895000	100517293	26279863	256672871	550	92856660	31.67	22536311	11
7214589	18183026	4050	53732209	573	9752276	41.95	0	0
23661066	16455597	1476877	51515427	679	16554455	5.26	0	0
43878053	17623960	765	61502013	750	11117443	14.08	0	0
38885000	30052678	8116038	95660326	545	50395862	31.98	0	0
62000000	52380973	75192	494796124	547	141300727	54.48	29432941	15
18540000	49646000	918000	187937000	500	30371000	10.70	0	0
44249040	52862535	5321317	122141438	310	30738658	34.30	0	0
109467369	154275411	99656492	425842012	2204	481048944	10.73	93948858	14
100490429	326090532	193289121	692231156	1230	378872642	4.61	54368224	11
27171139	26161605	4803045	80938425	167	61603302	8.05	0	0

Table 2. Electronic Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
13819222	47529697	28528321	105935365	390	103963493	15.19	14326169	8
7665625	25226621	5951040	49169626	250	84015205	5.28	13181985	13
8900456	8900394	2309111	39027111	583	39087111	7.34	7774426	9
14340730	20198645	1298300	29039111	641	39401999	12.32	5610844	11
12000000	9098446	0	18928000	436	18902007	2.63	2572563	7
30557165	11029478	1029884	26093770	564	38902993	20.27	4746165	7
46587930	18928990	9810384	33094091	301	34901992	-2.34	1867256	10
9668929	17829000	4568000	28913764	329	29019447	-6.46	4164290	6
4744803	12027863	89262	25860050	133	28944036	13.32	4691828	15
8280640	33874679	1459358	58409765	132	22256246	-9.11	4952014	12
37057500	28353691	9496294	255138510	801	94413745	-11.16	12443731	9
17640384	8887740	307907	73710511	273	18428342	-8.88	1901804	6
16919934	4921617	240813	41542054	119	19692845	8.07	4738098	8
28342648	26131783	13043180	81216328	453	26859776	16.75	5718446	11
3514747	3735315	1936068	11075059	48	2982546	3.74	0	0

Table 3. Financial Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
760729910	23106225696	3213098474	28017965852	8077	1492660399	23.41	179119247	15
76039425	894657521	39817446	1245317523	753	48653534	5.11	1459606	8
856355287	14895310000	587325000	18112048000	7068	1369508000	5.42	169818992	24
14143084	1843787100	288471878	2019824313	1022	84301479	12.05	0	0
140954772	2225610084	188433972	2582716918	1968	169679383	3.63	0	0
111558275	1844637144	47488617	2137726558	1283	163985291	11.36	0	0
29951417	955164410	594099459	1163891217	172	54179116	-7.42	0	0
1026362034	43660575504	3126617230	47846539205	15194	2964328892	4.28	385362755	24
635180589	1929861029	18362834	2773779323	480	227116643	9.88	0	0
427258940	15275144554	1845854411	17721237882	6863	1052186605	6.41	84069709	9
198066295	1225610084	101434322	1582777318	1974	110837129	14.60	0	0
548276548	10598386000	1242875739	11663830964	3583	629819763	-5.76	0	0
52494553	136331975	7525351	235911941	385	58506532	-0.77	0	0
65366600	250328396	8870468	326004308	492	61005228	3.03	0	0
34388050	247043378	10300038	354060530	514	137585016	14.60	0	0
71726000	1036096488	59387600	1250820731	1980	501732463	5.54	0	0
12263926	84343306	9583000	123111129	287	44959282	8.57	0	0
10636385	220701582	12092841	366105104	803	140550838	3.18	0	0
12603885	131798000	13940292	234571000	455	118178000	12.80	0	0

Table 4. Food and Beverages Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
11120201	100536548	38584221	197388379	1240	111367568	7.50	18531563	23
2090725	8836754	706095	11499695	210	10765500	7.05	1200353	10
4310400	6611428	3809250	16735645	295	4848472	22.71	650664	5
10369024	77452733	13133124	147686704	673	42240166	1.59	5009683	7
22254461	31547227	311169	98397614	270	56689716	4.30	16508045	8
9183310	41408772	8444464	98356617	220	12406522	9.94	914360	6
9012080	3230368	1648063	18142388	187	2631694	21.05	189745	11
20081820	25309871	3571	69586106	403	50989000	11.42	0	0
1407636	8989388	42003	11598568	172	6659772	19.21	1546399	10
1522993	19103583	1054123	23869573	139	7426426	37.58	1448153	16
1486427	18615765	10228184	49194341	165	20330667	30.74	3429783	15
71000579	747407000	630707000	3510558000	2300	580304000	9.63	139563112	20
46989187	38932834	7129657	151228174	410	49342839	5.03	2674381	13
27801036	27963976	9119787	118111330	239	20467701	8.62	2724251	8
20022000	2000000	33520	25266465	563	120000000	32.40	0	0
6186590	7046000	0	48866301	568	14303940	6.39	14303940	7
8167278	22024180	4583018	35952602	1907	49206227	7.45	14053298	11
8802659	23600247	10259665	42650865	823	20375510	35.75	1299957	4
12254347	43516029	9233059	117306000	198	21970100	12.80	3829388	23
14397768	255838600	1264725	314575729	4491	620614280	13.42	39905498	16
11254548	290718300	1565512	391000000	3029	456059009	6.84	0	0
8067188	15423900	9348082	31525434	467	15881171	18.34	1205380	5
22859109	31544810	860480	103297260	1430	160648110	2.14	20595087	9
22498550	60034195	7143457	177538533	2115	270349062	4.24	39579102	14
3897168	23765163	4346524	45265973	349	16091550	15.59	934919	7
10564930	12439046	104794	43495715	537	34045412	9.57	3033446	17
4631390	14510069	2510965	30887638	312	12748591	4.38	764915	9
9831255	32842195	935205	74892793	495	44633790	29.98	10042602	13
5120201	9700259	902144	23366599	477	19429990	4.30	1313467	8
2679820	27963976	9119787	118111330	1984	18091992	-4.27	0	0
1310400	9823006	834342	15645000	145	17414000	23.87	0	0
2578143	57342259	762837	85033569	511	9000932	19.92	0	0
1354666	8234291	1009854	19307453	298	12058377	-14.14	0	0
1900310	5411093	867524	17645081	414	6167230	47.26	0	0
1000459	12320456	1756090	19867443	593	27710934	6.43	0	0
1190363	4657594	0	9109668	817	46039853	17.34	0	0
1680206	13000000	5738920	21043911	220	11107530	21.13	0	0
1000000	19382711	0	24910311	187	12035676	30.06	0	0
704170	11029315	3910001	17823900	668	39682860	18.02	0	0
11352619	5728001	1201292	17823911	423	9286670	2.34	1883336	16
12530381	3291000	1291444	10234734	296	9987092	0.62	742040	10
873164	11029147	6758001	15780443	627	19986332	27.01	0	0
670000	7382805	5000540	12980333	347	12009435	30.20	0	0
3613040	4093814	1300659	11948339	238	21645320	2.87	2610425	15
5110043	11938227	9039883	17839332	311	19029128	-0.07	2525165	23
3219519	3586000	0	9019388	435	29300000	-1.03	7629720	11
2534785	15000000	7283109	24019885	375	11928347	-6.31	1507743	18
6918653	11092384	7890882	19827333	293	11920384	4.18	0	0
2409000	14567822	9103292	22019332	654	15637223	9.26	0	0
3833671	9000192	3091192	13092885	329	19039277	16.67	0	0
1591090	6785332	0	11928007	765	18938445	4.10	0	0
1550388	3429018	1200672	9801993	184	12364600	7.52	0	0
1937000	6866453	1092300	10938225	467	19003945	11.39	1083224	6
3530887	3495800	183938	9011589	396	16726394	6.52	0	0
1792450	4505948	2019223	11029385	563	19204755	14.39	0	0
3615973	5056225	345094	8900000	349	12094775	7.41	2646336	14
3201667	4323028	349000	7630921	106	9837000	3.72	0	0
1331205	4637329	2930293	12000293	275	5409951	44.72	0	0
1100730	12039283	7690000	22918377	495	31093774	27.99	0	0
1572197	8117632	3578432	19024349	477	11948333	7.48	0	0
6461756	11560925	2019111	19827004	1984	21547489	5.14	0	0

2183310	13049728	2019876	25610000	145	16130574	30.13	0	0
3012080	9534427	109288	12039881	177	9028372	21.04	0	0
2820335	4901928	102902	9019278	154	10293475	3.93	1433881	11
1123636	15069783	1203968	22006927	306	11948873	17.49	0	0
1211366	19029335	3981901	25503946	368	11475663	28.75	0	0
1542998	20391103	348509	89281104	540	14356000	14.72	0	0
1670000	6732659	938111	17645100	199	10549005	1.31	0	0
1009171	10928477	1029882	19029475	257	11876044	4.29	0	0
1123675	10920353	890974	19024773	268	10485999	3.91	0	0
1000000	6049128	980224	9019283	100	4300000	8.54	0	0
1623763	10291000	1029855	19029331	290	9800385	0.31	0	0
2953143	7582329	910921	9192883	133	6097000	42.90	0	0
1166390	5333948	0	11632637	188	5495000	37.36	0	0

Table 5. Furniture Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
20073880	39508944	11840323	74886537	375	40966371	6.68	4936447	19
3752794	1896014	33949	11704279	144	10924884	23.66	2032028	12
5121200	38752298	683145	41434949	187	13466932	8.26	3048913	7
7630227	9050163	253967	72762840	250	22330807	15.85	3539432	5
98596379	8297300	544325	110991011	186	20405383	3.09	3191401	11
59344771	95781273	10026444	235786900	1228	132447719	-2.59	27376943	13
3902036	6036408	460740	50255500	321	35822112	17.04	6938743	8
3762000	19596599	1032741	34209330	290	25314270	4.82	6318441	14
8674093	2340556	0	13448657	456	16700945	-1.23	0	0
13200394	19029556	8677530	34833664	309	23001556	5.09	0	0
9019487	15093558	7839220	29093446	531	17821009	-8.19	0	0
11968039	32938000	19023557	45869001	328	32918000	13.42	2304260	12
17833754	34029109	11000549	50930858	671	34101900	1.12	0	0
21303667	31005652	18932000	46700837	440	63019005	7.98	0	0
15645889	19885322	9019559	67049000	506	87000191	9.98	0	0

Table 6. Mining Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
222685373	162020629	40816213	431513013	1250	404609736	11.91	176976298	17
53142979	103474003	47571481	325730294	403	89512682	20.33	18197928	14
35035446	114369214	69029263	299316258	319	254625318	20.39	28568960	18
26952018	185174688	85520894	254583964	663	118001299	58.71	19198811	21
31022561	112979331	67035897	259375963	680	294357530	15.00	32555942	13
30140960	143000000	89748113	243457000	980	340390912	18.00	44591209	12
16687135	25051259	4562145	62005834	138	26343516	11.95	5144888	16

Table 7. Petroleum Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
383954885	679102662	170885480	1950716334	2276	2885524589	34.15	479574186	11
33234894	302487221	175725001	551121430	1028	1508807748	14.19	148919324	14
192599853	185171241	954913	512607144	534	1194257602	17.06	133995702	9
12532475	27224071	11962862	43052872	175	119879042	14.38	0	0
14776456	29876110	13435980	49029665	230	165793220	9.04	0	0
8913748	21928000	8971000	38918007	315	13029003	-3.40	0	0
6318242	29810000	12093090	33409006	392	11092000	-4.98	0	0
5870110	19029024	8910000	27819556	385	9019119	-10.23	0	0

Table 8. Pharmaceutical Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
2958225	7895630	2093646	29181557	286	19092446	9.13	0	0
12742640	3636751	2656	21864572	190	7417714	15.64	1927863	9
7897836	10094501	82286	29299964	230	23492462	12.83	7120565	7
4560000	1684979	173300	11724768	245	6328528	14.06	795495	5
11449050	24135154	3234631	58438764	289	50351226	15.00	5568845	14
13720340	41774248	1260576	86146990	502	59480795	13.11	11682028	13

Table 9. Plastic Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
6400152	5429990	442937	40156276	106	9238425	1.10	1928059	16
4299348	7651393	302086	29265115	135	18378960	7.91	6947246	20
4500000	4704552	152049	23726970	150	11748745	10.17	2038407	14
2415949	10154102	95308	17426159	165	11464647	12.64	2460313	12
24750792	142467214	69776651	219056021	536	68640210	7.79	12506246	23
4220960	17387486	67824	56855011	270	55509150	9.76	98084666	13
4299348	9211283	2792066	22269720	312	16547993	-2.34	1555511	7
3445878	6403906	1948637	20466945	196	13203775	-1.98	2609065	13
8406080	13664902	2953006	20646774	184	14650900	2.35	0	0
7908446	19462188	5632817	42336786	237	16726000	8.11	2744736	9
2000968	5764301	3928101	24019334	295	11503460	-3.44	1535711	16
1000000	6091882	2093674	11938532	238	13029449	4.12	0	0
690000	5685000	1323469	12938444	320	11920339	-6.57	0	0
987000	8902647	4574320	14467000	347	9549010	-2.31	0	0
879550	9182554	5960231	19053885	453	12094995	3.58	0	0

Table 10. Telecommunication Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
264115650	777479000	191990000	1550294000	4119	770481000	28.06	0	0
11850000	145740041	9532585	410670580	756	413597781	15.30	0	0
179293620	544271281	4233693	1006261388	2552	950923968	19.57	0	0
1108919238	3383636807	2496094114	7401058466	18545	3443908900	13.06	0	0
155126259	570321260	48978033	1141620070	1533	848695314	-7.89	0	0
15319497	120483557	65710332	298000761	431	129254600	-2.22	0	0
44175935	89118558	74850332	298100472	360	134039475	12.98	0	0

Table 11. Textile Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
7326648	9645950	316326	17537576	211	12407349	11.53	4559700	13
7565205	19803206	6750202	41851432	326	34609615	12.80	16339199	14
2992500	1366233	0	11790095	107	8351882	-2.54	1360521	21
10305079	18641773	14769311	47929961	324	22032495	4.00	8976038	17
20127574	35571013	11979052	102143218	590	81491864	16.87	13201681	13
3369143	3266064	0	14014285	150	13923680	8.34	5300744	9
12176805	29891768	462518	86774040	772	56114826	6.34	17895018	12
12331025	19507444	1428338	70568049	460	35656768	43.72	8910626	10
98050454	103139750	3356071	482670360	950	98091706	17.73	298000260	16
1834072	8884848	27704	17924505	80	10209781	6.25	1395677	7
22522500	4576549	0	49732968	236	12719166	7.14	3794127	8
30227956	49293055	1443742	100276918	1150	56526297	8.69	3685514	3
20020000	22885898	9621691	101544830	540	45091996	7.57	2299691	12
7296206	2946842	195831	25169904	154	15753188	8.58	1791137	8
4454400	3164775	0	14115302	128	9224992	18.38	349627	4
1647000	3128657	86851	6663867	101	6529157	37.28	0	0

12616787	30633930	7007485	58160180	336	34290321	4.90	9800173	16
2356000	5746640	1100	19571310	381	18237600	6.03	0	0
15690000	43330094	22387756	72632155	545	34178215	10.38	0	0
4365900	10616405	4761682	24053915	150	16391013	13.93	0	0
5688616	18651190	1813124	29209878	234	25833673	19.20	5954661	23
5000869	779054	162157	9545596	396	5170756	24.55	664959	19
21045419	21413008	8614391	99269130	398	19029478	21.14	1619408	11
18222296	12001542	2195831	91259001	547	17645111	0.73	5769951	7
14556177	2981335	0	12675302	871	6091000	13.32	522607	12
6072185	3000657	0	6663867	645	18000000	45.14	2034000	6
4166774	30673921	4114965	58160180	761	13549200	30.67	834630	9
2121190	3816530	314067	14091912	631	5871620	3.16	0	0
6233129	28555794	12963001	64009640	540	17098841	8.64	4462797	14
15017574	12755912	6000000	24053915	541	8000000	18.21	0	0
3143367	19361227	6728950	30203605	488	9483761	12.09	0	0
9805203	1289061	223604	5315068	438	7934870	7.08	0	0
6000991	1092874	0	4867000	344	5643200	7.56	0	0
9184799	3657119	985772	9013764	375	11029347	-0.79	1704034	6
1114193	7630928	1099741	13465118	352	16273881	-1.81	0	0
12300184	9381700	3645000	19092835	407	9103988	-2.08	0	0
1227956	11882565	332674	15130662	150	10952856	21.58	0	0

Table 12. Tobacco Companies- All

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth Rate (%)	Exports Turnover	Number of Export Markets
11809479	74062128	2257824	154073245	474	147463451	23.56	24375708	8
44056436	282286878	17210968	353929138	1200	291289086	6.70	17302571	13
8344706	10900381	9781900	15093882	462	9032885	35.29	0	0
12008435	94976438	77400000	162764590	513	15196340	5.20	537950	11
11343519	67890066	65110200	160557712	574	13000000	15.89	1472200	9
5159528	154292434	123699664	301928116	490	12056003	44.28	1193544	9
2306559	3861000	2617223	12981711	351	13046784	8.43	0	0
13206557	210381061	170458980	297661900	488	15567100	-8.00	0	0
2005102	890000	519664	4981664	369	11230000	67.66	0	0
2808069	2056637	1143000	5298300	407	2300564	-35.52	0	0
2000000	2552921	1503918	5879012	417	1975200	3.78	0	0
2304129	3330290	3010830	6755209	476	1437627	1.59	0	0
1261089	2449445	1300000	5897110	452	980119	6.51	0	0
1872371	3339110	2571002	6754091	489	12100027	11.91	0	0

Table 1. Electronic Companies- Export

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
7665625	25226621	5951040	49169626	250	84015205	5.28	13181985	13
8900456	8900394	2309111	39027111	583	39087111	7.34	7774426	9
14340730	20198645	1298300	29039111	641	39401999	12.32	5610844	11
12000000	9098446	0	18928000	436	18902007	2.63	2572563	7
30557165	11029478	1029884	26093770	564	38902993	20.27	4746165	7
46587930	18928990	9810384	33094091	301	34901992	-2.34	1867256	10
9668929	17829000	4568000	28913764	329	29019447	-6.46	4164290	6
4744803	12027863	89262	25860050	133	28944036	13.32	4691828	15
8280640	33874679	1459358	58409765	132	22256246	-9.11	4952014	12

Table 2. Food and Beverages Companies- Exports

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
2578143	57342259	762837	85033569	511	9000932	19.92	0	0
1354666	8234291	1009854	19307453	298	12058377	-14.14	0	0
1900310	5411093	867524	17645081	414	6167230	47.26	0	0
1000459	12320456	1756090	19867443	593	27710934	6.43	0	0
1190363	4657594	0	9109668	817	46039853	17.34	0	0
1680206	13000000	5738920	21043911	220	11107530	21.13	0	0
1000000	19382711	0	24910311	187	12035676	30.06	0	0
704170	11029315	3910001	17823900	668	39682860	18.02	0	0
11352619	5728001	1201292	17823911	423	9286670	2.34	1883336	16
12530381	3291000	1291444	10234734	296	9987092	0.62	742040	10
873164	11029147	6758001	15780443	627	19986332	27.01	0	0
670000	7382805	5000540	12980333	347	12009435	30.20	0	0
3613040	4093814	1300659	11948339	238	21645320	2.87	2610425	15
5110043	11938227	9039883	17839332	311	19029128	-0.07	2525165	23
3219519	3586000	0	9019388	435	29300000	-1.03	7629720	11
2534785	15000000	7283109	24019885	375	11928347	-6.31	1507743	18
6918653	11092384	7890882	19827333	293	11920384	4.18	0	0

Table 3. Furniture Companies- Exports

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
3902036	6036408	460740	50255500	321	35822112	17.04	6938743	8
3762000	19596599	1032741	34209330	290	25314270	4.82	6318441	14
8674093	2340556	0	13448657	456	16700945	-1.23	0	0
13200394	19029556	8677530	34833664	309	23001556	5.09	0	0
11968039	32938000	19023557	45869001	328	32918000	13.42	2304260	12

Table 4. Petroleum Companies- Export

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
8913748	21928000	8971000	38918007	315	13029003	-3.40	0	0
6318242	29810000	12093090	33409006	392	11092000	-4.98	0	0
5870110	19029024	8910000	27819556	385	9019119	-10.23	0	0

Table 5. Pharmaceutical Companies- Exports

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
12742640	3636751	2656	21864572	190	7417714	15.64	1927863	9.00
7897836	10094501	82286	29299964	230	23492462	12.83	7120565	7.00
11449050	24135154	3234631	58438764	289	50351226	15.00	5568845	14.00
13720340	41774248	1260576	86146990	502	59480795	13.11	11682028	13.00

Table 6. Plastic Companies- Export

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
4299348	9211283	2792066	22269720	312	16547993	-2.34	1555511	7
3445878	6403906	1948637	20466945	196	13203775	-1.98	2609065	13
8406080	13664902	2953006	20646774	184	14650900	2.35	0	0
7908446	19462188	5632817	42336786	237	16726000	8.11	2744736	9
2000968	5764301	3928101	24019334	295	11503460	-3.44	1535711	16
1000000	6091882	2093674	11938532	238	13029449	4.12	0	0
690000	5685000	1323469	12938444	320	11920339	-6.57	0	0
987000	8902647	4574320	14467000	347	9549010	-2.31	0	0
879550	9182554	5960231	19053885	453	12094995	3.58	0	0

Table 7. Textile Companies- Exports

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
5688616	18651190	1813124	29209878	234	25833673	19.20	5954661	23
5000869	779054	162157	9545596	396	5170756	24.55	664959	19
21045419	21413008	8614391	99269130	398	19029478	21.14	1619408	11
18222296	12001542	2195831	91259001	547	17645111	0.73	5769951	7
14556177	2981335	0	12675302	871	6091000	13.32	522607	12
6072185	3000657	0	6663867	645	18000000	45.14	2034000	6
4166774	30673921	4114965	58160180	761	13549200	30.67	834630	9
2121190	3816530	314067	14091912	631	5871620	3.16	0	0
6233129	28555794	12963001	64009640	540	17098841	8.64	4462797	14
15017574	12755912	6000000	24053915	541	8000000	18.21	0	0
3143367	19361227	6728950	30203605	488	9483761	12.09	0	0
9805203	1289061	223604	5315068	438	7934870	7.08	0	0
6000991	1092874	0	4867000	344	5643200	7.56	0	0
9184799	3657119	985772	9013764	375	11029347	-0.79	1704034	6
1114193	7630928	1099741	13465118	352	16273881	-1.81	0	0
12300184	9381700	3645000	19092835	407	9103988	-2.08	0	0
1227956	11882565	332674	15130662	150	10952856	21.58	0	0

Table 8. Tobacco Companies- Exports

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
2306559	3861000	2617223	12981711	351	13046784	8.43	0	0
13206557	210381061	170458980	297661900	488	15567100	-8.00	0	0
2005102	890000	519664	4981664	369	11230000	67.66	0	0

Table 1. Electronic Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
13819222	47529697	28528321	105935365	390	103963493	15.19	14326169	8
37057500	28353691	9496294	255138510	801	94413745	-11.16	12443731	9
17640384	8887740	307907	73710511	273	18428342	-8.88	1901804	6
16919934	4921617	240813	41542054	119	19692845	8.07	4738098	8
28342648	26131783	13043180	81216328	453	26859776	16.75	5718446	11
3514747	3735315	1936068	11075059	48	2982546	3.74	0	0

Table 2. Food and Beverages Companies FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
11120201	100536548	38584221	197388379	1240	111367568	7.50	18531563	23
2090725	8836754	706095	11499695	210	10765500	7.05	1200353	10
4310400	6611428	3809250	16735645	295	4848472	22.71	650664	5
10369024	77452733	13133124	147686704	673	42240166	1.59	5009683	7
22254461	31547227	311169	98397614	270	56689716	4.30	16508045	8
9183310	41408772	8444464	98356617	220	12406522	9.94	914360	6
9012080	3230368	1648063	18142388	187	2631694	21.05	189745	11
20081820	25309871	3571	69586106	403	50989000	11.42	0	0
1407636	8989388	42003	11598568	172	6659772	19.21	1546399	10
1522993	19103583	1054123	23869573	139	7426426	37.58	1448153	16
1486427	18615765	10228184	49194341	165	20330667	30.74	3429783	15
71000579	747407000	630707000	3510558000	2300	580304000	9.63	139563112	20
46989187	38932834	7129657	151228174	410	49342839	5.03	2674381	13
27801036	27963976	9119787	118111330	239	20467701	8.62	2724251	8
20022000	2000000	33520	25266465	563	120000000	32.40	0	0
6186590	7046000	0	48866301	568	14303940	6.39	14303940	7
8167278	22024180	4583018	35952602	1907	49206227	7.45	14053298	11
8802659	23600247	10259665	42650865	823	20375510	35.75	1299957	4
12254347	43516029	9233059	117306000	198	21970100	12.80	3829388	23
14397768	255838600	1264725	314575729	4491	620614280	13.42	39905498	16
11254548	290718300	1565512	391000000	3029	456059009	6.84	0	0
8067188	15423900	9348082	31525434	467	15881171	18.34	1205380	5
22859109	31544810	860480	103297260	1430	160648110	2.14	20595087	9
22498550	60034195	7143457	177538533	2115	270349062	4.24	39579102	14
3897168	23765163	4346524	45265973	349	16091550	15.59	934919	7
10564930	12439046	104794	43495715	537	34045412	9.57	3033446	17
4631390	14510069	2510965	30887638	312	12748591	4.38	764915	9
9831255	32842195	935205	74892793	495	44633790	29.98	10042602	13
5120201	9700259	902144	23366599	477	19429990	4.30	1313467	8
2679820	27963976	9119787	118111330	1984	18091992	-4.27	0	0
1310400	9823006	834342	15645000	145	17414000	23.87	0	0

Table 3. Furniture Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
20073880	39508944	11840323	74886537	375	40966371	6.68	4936447	19
3752794	1896014	33949	11704279	144	10924884	23.66	2032028	12
5121200	38752298	683145	41434949	187	13466932	8.26	3048913	7
7630227	9050163	253967	72762840	250	22330807	15.85	3539432	5
98596379	8297300	544325	110991011	186	20405383	3.09	3191401	11
59344771	95781273	10026444	235786900	1228	132447719	-2.59	27376943	13

Table 4. Financial Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
760729910	23106225696	3213098474	28017965852	8077	1492660399	23.41	179119247	15
76039425	894657521	39817446	1245317523	753	48653534	5.11	1459606	8
856355287	14895310000	587325000	18112048000	7068	1369508000	5.42	169818992	24
14143084	1843787100	288471878	2019824313	1022	84301479	12.05	0	0
140954772	2225610084	188433972	2582716918	1968	169679383	3.63	0	0
111558275	1844637144	47488617	2137726558	1283	163985291	11.36	0	0
29951417	955164410	594099459	1163891217	172	54179116	-7.42	0	0
1026362034	43660575504	3126617230	47846539205	15194	2964328892	4.28	385362755	24
635180589	1929861029	18362834	2773779323	480	227116643	9.88	0	0
427258940	15275144554	1845854411	17721237882	6863	1052186605	6.41	84069709	9
198066295	1225610084	101434322	1582777318	1974	110837129	14.60	0	0
548276548	10598386000	1242875739	11663830964	3583	629819763	-5.76	0	0
52494553	136331975	7525351	235911941	385	58506532	-0.77	0	0
65366600	250328396	8870468	326004308	492	61005228	3.03	0	0
34388050	247043378	10300038	354060530	514	137585016	14.60	0	0
71726000	1036096488	59387600	1250820731	1980	501732463	5.54	0	0
12263926	84343306	9583000	123111129	287	44959282	8.57	0	0
10636385	220701582	12092841	366105104	803	140550838	3.18	0	0
12603885	131798000	13940292	234571000	455	118178000	12.80	0	0

Table 5. Petroleum Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
383954885	679102662	170885480	1950716334	2276	2885524589	34.15	479574186	11
33234894	302487221	175725001	551121430	1028	1508807748	14.19	148919324	14
192599853	185171241	954913	512607144	534	1194257602	17.06	133995702	9
12532475	27224071	11962862	43052872	175	119879042	14.38	0	0
14776456	29876110	13435980	49029665	230	165793220	9.04	0	0

Table 6. Pharmaceutical Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
2958225	7895630	2093646	29181557	286	19092446	9.13	0	0
4560000	1684979	173300	11724768	245	6328528	14.06	795495	5

Table 7. Plastic Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
6400152	5429990	442937	40156276	106	9238425	1.10	1928059	16
4500000	4704552	152049	23726970	150	11748745	10.17	2038407	14
2415949	10154102	95308	17426159	165	11464647	12.64	2460313	12
24750792	142467214	69776651	219056021	536	68640210	7.79	12506246	23
4220960	17387486	67824	56855011	270	55509150	9.76	98084666	13
4299348	9211283	2792066	22269720	312	16547993	-2.34	1555511	7

Table 8. Textile Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
7326648	9645950	316326	17537576	211	12407349	11.53	4559700	13
7565205	19803206	6750202	41851432	326	34609615	12.80	16339199	14
2992500	1366233	0	11790095	107	8351882	-2.54	1360521	21
10305079	18641773	14769311	47929961	324	22032495	4.00	8976038	17
20127574	35571013	11979052	102143218	590	81491864	16.87	13201681	13
3369143	3266064	0	14014285	150	13923680	8.34	5300744	9
12176805	29891768	462518	86774040	772	56114826	6.34	17895018	12
12331025	19507444	1428338	70568049	460	35656768	43.72	8910626	10
98050454	103139750	3356071	482670360	950	98091706	17.73	298000260	16

1834072	8884848	27704	17924505	80	10209781	6.25	1395677	7
22522500	4576549	0	49732968	236	12719166	7.14	3794127	8
30227956	49293055	1443742	100276918	1150	56526297	8.69	3685514	3
20020000	22885898	9621691	101544830	540	45091996	7.57	2299691	12
4365900	10616405	4761682	24053915	150	16391013	13.93	0	0

Table 9. Tobacco Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Expo Markets
11809479	74062128	2257824	154073245	474	147463451	23.56	24375708	8
44056436	282286878	17210968	353929138	1200	291289086	6.70	17302571	13
8344706	10900381	9781900	15093882	462	9032885	35.29	0	0
12008435	94976438	77400000	162764590	513	15196340	5.20	537950	11
11343519	67890066	65110200	160557712	574	13000000	15.89	1472200	9
5159528	154292434	123699664	301928116	490	12056003	44.28	1193544	9

Table 10. Telecommunication Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
264115650	777479000	191990000	1550294000	4119	770481000	28.06	0	0
11850000	145740041	9532585	410670580	756	413597781	15.30	0	0
179293620	544271281	4233693	1006261388	2552	950923968	19.57	0	0
1108919238	3383636807	2496094114	7401058466	18545	3443908900	13.06	0	0
155126259	570321260	48978033	1141620070	1533	848695314	-7.89	0	0
15319497	120483557	65710332	298000761	431	129254600	-2.22	0	0
44175935	89118558	74850332	298100472	360	134039475	12.98	0	0

Table 11. Construction Companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Export Markets
146203200	61149780	13514050	334922120	997	71847770	27.00	16330998	14
40700000	56016455	0	270082373	1000	120875395	41.13	26471711	16
11895000	100517293	26279863	256672871	550	92856660	31.67	22536311	11
7214589	18183026	4050	53732209	573	9752276	41.95	0	0
23661066	16455597	1476877	51515427	679	16554455	5.26	0	0
43878053	17623960	765	61502013	750	11117443	14.08	0	0
38885000	30052678	8116038	95660326	545	50395862	31.98	0	0
62000000	52380973	75192	494796124	547	141300727	54.48	29432941	15
18540000	49646000	918000	187937000	500	30371000	10.70	0	0
44249040	52862535	5321317	122141438	310	30738658	34.30	0	0
109467369	154275411	99656492	425842012	2204	481048944	10.73	93948858	14
100490429	326090532	193289121	692231156	1230	378872642	4.61	54368224	11
27171139	26161605	4803045	80938425	167	61603302	8.05	0	0

Table 12. Mining companies- FDI

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Number of Employees	Sales	Growth (%)	Exports Turnover	Number of Expor Markets
222685373	162020629	40816213	431513013	1250	404609736	11.91	176976298	17
53142979	103474003	47571481	325730294	403	89512682	20.33	18197928	14
35035446	114369214	69029263	299316258	319	254625318	20.39	28568960	18
26952018	185174688	85520894	254583964	663	118001299	58.71	19198811	21
31022561	112979331	67035897	259375963	680	294357530	15.00	32555942	13
30140960	143000000	89748113	243457000	980	340390912	18.00	44591209	12
16687135	25051259	4562145	62005834	138	26343516	11.95	5144888	16

Table 1. Food and Beverages Companies- Indifferent

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Labour	Sales	Growth (%)	Exports Turnover	Number of Export Markets
2409000	14567822	9103292	22019332	654	15637223	9.26	0	0
3833671	9000192	3091192	13092885	329	19039277	16.67	0	0
1591090	6785332	0	11928007	765	18938445	4.10	0	0
1550388	3429018	1200672	9801993	184	12364600	7.52	0	0
1937000	6866453	1092300	10938225	467	19003945	11.39	1083224	6
3530887	3495800	183938	9011589	396	16726394	6.52	0	0
1792450	4505948	2019223	11029385	563	19204755	14.39	0	0
3615973	5056225	345094	8900000	349	12094775	7.41	2646336	14
3201667	4323028	349000	7630921	106	9837000	3.72	0	0
1331205	4637329	2930293	12000293	275	5409951	44.72	0	0
1100730	12039283	7690000	22918377	495	31093774	27.99	0	0
1572197	8117632	3578432	19024349	477	11948333	7.48	0	0
6461756	11560925	2019111	19827004	1984	21547489	5.14	0	0
2183310	13049728	2019876	25610000	145	16130574	30.13	0	0
3012080	9534427	109288	12039881	177	9028372	21.04	0	0
2820335	4901928	102902	9019278	154	10293475	3.93	1433881	11
1123636	15069783	1203968	22006927	306	11948873	17.49	0	0
1211366	19029335	3981901	25503946	368	11475663	28.75	0	0
1542998	20391103	348509	89281104	540	14356000	14.72	0	0
1670000	6732659	938111	17645100	199	10549005	1.31	0	0
1009171	10928477	1029882	19029475	257	11876044	4.29	0	0
1123675	10920353	890974	19024773	268	10485999	3.91	0	0
1000000	6049128	980224	9019283	100	4300000	8.54	0	0
1623763	10291000	1029855	19029331	290	9800385	0.31	0	0
2953143	7582329	910921	9192883	133	6097000	42.90	0	0
1166390	5333948	0	11632637	188	5495000	37.36	0	0

Table 2. Furniture Companies- Indifferent

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Labour	Sales	Growth (%)	Exports Turnover	Number of Export Markets
9019487	15093558	7839220	29093446	531	17821009	-8.19	0	0
17833754	34029109	11000549	50930858	671	34101900	1.12	0	0
21303667	31005652	18932000	46700837	440	63019005	7.98	0	0
15645889	19885322	9019559	67049000	506	87000191	9.98	0	0

Table 3. Textile Companies- Indifferent

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Labour	Sales	Growth (%)	Exports Turnover	Number of Export Markets
7296206	2946842	195831	25169904	154	15753188	8.58	1791137	8
4454400	3164775	0	14115302	128	9224992	18.38	349627	4
1647000	3128657	86851	6663867	101	6529157	37.28	0	0
12616787	30633930	7007485	58160180	336	34290321	4.90	9800173	16
2356000	5746640	1100	19571310	381	18237600	6.03	0	0
15690000	43330094	22387756	72632155	545	34178215	10.38	0	0

Table 4. Tobacco Companies- Indifferent

Total Capitalisation	Total Debt	Long Term Debt	Total Assets	Labour	Sales	Growth (%)	Exports Turnover	Number of Export Markets
2808069	2056637	1143000	5298300	407	2300564	-35.52	0	0
2000000	2552921	1503918	5879012	417	1975200	3.78	0	0
2304129	3330290	3010830	6755209	476	1437627	1.59	0	0
1261089	2449445	1300000	5897110	452	980119	6.51	0	0
1872371	3339110	2571002	6754091	489	12100027	11.91	0	0

Joint Venture Companies

Table 1. Construction Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
334922120	2937000	71847770	4.66	2867320	3.99	27.0	0	1	72064	668184	14

Table 2. Financial Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
2019824313	6589000	84301479	23.96	47775281	56.67	12.05	0	0	82487	724992	0
2137726558	2000000	163985291	13.04	38284716	23.35	11.36	0	0	127814	1590657	0
1163891217	5768000	54179116	21.48	9043898	16.69	-7.42	0	0	314995	65014	0
2773779323	23000000	227116643	12.21	60320569	26.56	9.88	0	0	473160	124941	0
17721237882	20000000	1052186605	16.84	388047029	36.88	6.41	0	0	153313	8733148	9
1582777318	7000000	110837129	14.28	32415000	29.25	14.60	0	0	56148	520934	0

Table 3. Food and Beverages Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
197388379	5000000	111367568	1.77	6205665	5.57	7.50	0	1	89812	94350	23
11499695	1053000	10765500	1.07	1287000	11.95	7.05	430620	1	51264	59210	10
16735645	3000000	4848472	3.45	540596	11.15	22.71	0	1	16435	45575	5
147686704	5394000	42240166	3.50	3768001	8.92	1.59	0	1	62764	130944	7
98397614	13968000	56689716	1.74	4968000	8.76	4.30	0	1	209962	124717	8
98356617	5306000	12406522	7.93	934447	7.53	9.94	0	1	56393	14888	6

Table 4. Furniture Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
72762840	2010000	22330807	3.26	1691888	7.58	15.85	0	1	89323	290300	5
110991011	9364000	20405383	5.44	751625	3.68	3.09	0	1	109706	153040	11
235786900	3166000	132447719	1.78	3751541	2.83	-2.59	0	1	107856	1324477	13

Table 5. Mining Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
325730294	37000000	89512682	3.64	3509000	3.92	20.33	0	1	222116	170074	14

Table 6. Petroleum Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
1950716334	24000000	2885524589	0.68	50635964	1.75	34.15	173131457	1	1267805	259697	11

Table 7. Telecommunication Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
1006261388	86000000	950923968	1.06	146747901	15.43	19.57	7131929	1	372619	7036837	0
1141620070	20000000	848695314	1.35	100546778	11.85	-7.89	16973906	1	553617	4328346	0
298000761	5000000	129254600	2.31	14039556	10.86	-2.22	1292546	1	299895	361912	0

Table 8. Textile Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
17537576	2877000	12407349	1.41	3134218	25.26	11.53	0	1	58803	29777	13
41851432	1735000	34609615	1.21	3495887	10.10	12.8	0	1	106164	283798	14
11790095	1674000	8351882	1.41	2386912	28.58	-2.54	0	1	78055	0	21
47929961	2736000	22032495	2.18	3624763	16.45	4.00	0	1	68001	158633	17
102143218	1892000	81491864	1.25	5343223	6.56	16.87	0	1	138122	513398	13
14014285	1391000	13923680	1.01	1772113	12.73	8.34	0	1	92824	40379	9
86774040	2520000	56114826	1.55	2821764	5.03	6.34	0	1	72688	269351	12
70568049	2965000	35656768	1.98	5706223	16.00	43.72	0	1	77515	199677	10
482670360	2650000	98091706	4.92	4552579	4.64	17.73	0	1	103254	147137	16

Table 9. Tobacco Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
160557712	5346000	13000000	12.35	2109301	16.23	15.89	0	1	22648	83200	9

Acquired Companies

Table 1. Construction Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
270082373	15320000	120875395	2.23	20435833	16.91	41.13	1087878	1	120875	1136228	16
256672871	6543000	92856660	2.76	20853058	22.46	31.67	0	1	168830	696424	11
53732209	4365000	9752276	5.51	128305	1.32	41.95	0	1	17020	64365	0
51515427	14000000	16554455	3.11	3527765	21.31	5.26	0	1	24381	496633	0
61502013	52000000	11117443	5.53	1420069	12.77	14.08	0	1	14823	111174	0

Table 2. Electronic Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
105935365	5892000	103963493	1.01	2608319	2.508879728	15.19	0	0	266573	946067	8
255138510	2236000	94413745	2.70	2453462	2.598627986	-11.16	0	0	117870	217151	9
73710511	4118000	18428342	3.99	729550	3.958847736	-8.88	0	0	67503	22114	6
81216328	1574000	26859776	3.02	5138516	19.1308967	16.75	0	0	59293	25248	11

Table 3. Financial Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intnsity	Advert	Geogr
28017965852	38000000	1492660399	18.77	544344337	36.47	23.41	0	0	184804	17911924	15
1245317523	10732000	48653534	25.60	6179639	12.70	5.11	0	0	64613	4719392	8
18112048000	25000000	1369508000	13.22	433247000	31.64	5.42	0	0	193762	31498684	24
2582716918	30000000	169679383	15.22	96180424	56.68	3.63	0	0	86219	882332	0
47846539205	207000000	2964328892	16.14	700157940	23.62	4.28	0	0	195099	25789661	24

Table 4. Food and Beverages Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
18142388	5791000	2631694	6.89	247308	9.40	21.05	0	1	14073	23948	11
69586106	10000000	50989000	1.36	4052328	7.95	11.42	0	1	126524	234549	0
11598568	5000000	6659772	1.74	502729	7.55	19.21	0	1	38720	39292	10
23869573	1000000	7426426	3.21	1000888	13.48	37.58	0	1	53427	49757	16
49194341	4000000	20330667	2.42	2753400	13.54	30.74	0	1	123216	187042	15
3510558000	32000000	580304000	6.05	58068000	10.01	9.63	40621280	1	252306	6383344	20
151228174	26591000	49342839	3.06	3034000	6.15	5.03	0	1	120348	365137	13
118111330	78000000	20467701	5.77	1347657	6.58	8.62	0	1	85639	24561	8
25266465	12000000	120000000	0.21	7890000	6.58	32.40	0	1	213144	10920000	0
48866301	4912000	14303940	3.42	1970000	13.77	6.39	0	1	25183	0	7
35952602	7000000	49206227	0.73	5417165	11.01	7.45	0	1	25803	0	11
42650865	7000000	20375510	2.09	2871861	14.09	35.75	0	1	24758	0	4
117306000	6000000	21970100	5.34	2147300	9.77	12.80	0	1	110960	0	23
314575729	9000000	620614280	0.51	10816975	1.74	13.42	18618428	1	138191	8688599	16
391000000	8000000	456059009	0.86	13472811	2.95	6.84	13681770	1	150564	3830895	0
31525434	7000000	15881171	1.99	1193690	7.52	18.34	0	1	34007	0	5
103297260	15000000	160648110	0.64	16574700	10.32	2.14	0	1	112341	0	9
177538533	14000000	270349062	0.66	11119000	4.11	4.24	5406981	1	127825	865116	14
45265973	1300000	16091550	2.81	725636	4.51	15.59	0	1	46108	0	7

Table 5. Mining Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
431513013	170000000	404609736	1.07	46650944	11.53	11.91	1618438	1	323688	1537516	17
299316258	13689000	254625318	1.18	16004310	6.28	20.39	7638	1	798198	916651	18
254583964	6000000	118001299	2.16	4196950	3.56	58.71	0	1	177981	188802	21
259375963	20000000	294357530	0.88	25056046	8.51	15	0	1	432879	749765	13
243457000	5209000	340390912	0.72	18928000	5.56	18	408469	1	347338	408469	12
62005834	5640000	26343516	2.35	1567799	5.95	11.95	0	1	190895	42149	16

Table 6. Petroleum Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
551121430	5481000	1508807748	0.37	84767434	5.62	14.19	15088077	1	1467712	2564973	14
512607144	182000000	1194257602	0.43	12773623	1.07	17.06	107483	1	2236437	23885515	9
43052872	5723000	119879042	0.36	2918382	2.43	14.38	0	1	685023	839153	0
49029665	5662000	165793220	0.30	3901948	2.35	9.04	0	1	720840	828966	0

Table 7. Pharmaceutical Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
29181557	2099000	19092446	1.53	567899	2.97	9.13	572773	1	66757	0	0
11724768	2396000	6328528	1.85	870015	13.75	14.06	0	1	25831	0	5

Table 8. Plastic Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
40156276	5032000	9238425	4.35	102957	1.11	1.10	0	1	87155	27715	16
23726970	945000	11748745	2.02	1987000	16.91	10.17	70492	1	78325	93989	14
17426159	1000000	11464647	1.52	392796	3.43	12.64	0	1	69483	19489	12
219056021	851000	68640210	3.19	8593312	12.52	7.79	0	1	128060	391249	23
56855011	8430000	55509150	1.02	5313000	9.57	9.76	0	1	205589	377462	13
22269720	678000	16547993	1.35	498430	3.01	-2.34	0	1	53038	134038	7

Table 9. Telecommunication Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
1550294000	64000000	770481000	2.01	103594000	13.44	28.06	4622886	1	187055	7165473	0
410670580	8000000	413597781	0.99	42952468	10.39	15.30	1116714	1	547087	3929178	0
7401058466	675000000	3443908900	2.15	480520950	13.95	13.06	15153199 1	1	185705	10676117	0

Table 10. Textile Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
17924505	2002000	10209781	1.76	2217238	21.72	6.25	0	1	127622	74531	7

Table 11. Tobacco Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Geogr
154073245	9000000	147463451	1.04	46793275	31.73	23.56	265434	1	311104	958512	8
353929138	5000000	291289086	1.22	49699204	17.06	6.7	0	1	242741	1339929	13
15093882	5111000	9032885	1.67	849994	9.41	35.29	0	1	19552	78586	0
162764590	9000000	15196340	10.71	2333490	15.36	5.2	0	1	29622	115492	11
301928116	2852000	12056003	25.04	901947	39.76	44.28	0	1	24604	85597	9

Greenfield Companies

Table 1. Construction Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
95660326	3712000	50395862	1.90	7919530	15.71	31.98	0	1	92469	337652	0.0067	0
494796124	5370000	141300727	3.50	17701608	12.53	54.48	706503	1	258319	1215186	0.0086	15
187937000	5000000	30371000	6.19	6297000	20.73	10.7	0	1	60742	157929	0.0052	0
122141438	3000000	30738658	3.97	3339093	10.86	34.3	0	1	99157	233613	0.0076	0
425842012	25000000	481048944	0.89	125706174	26.13	10.73	962097	1	218262	428133	0.00089	14
692231156	10000000	378872642	1.83	130371884	34.41	4.61	0	1	308026	375084	0.00099	11
80938425	5320000	61603302	1.31	15116463	24.54	8.05	0	1	368882	51747	0.00084	0

Table 2. Electronic Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
41542054	3671000	19692845	2.11	5082321	25.81	8.07	0	0	165486	25411	0.005	8
11075059	1430000	2982546	3.71	657890	22.06	3.74	0	0	62136	0	0	0

Table 3. Financial Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
11663830964	19000000	629819763	18.52	173935187	27.62	-5.76	0	0	175780	4660666	0.0074	0
235911941	7000000	58506532	4.03	-2322795	-3.97	-0.77	0	0	151965	526558	0.009	0
326004308	4195000	61005228	5.34	10175493	16.68	3.03	0	0	123994	463639	0.0076	0
354060530	5800000	137585016	2.57	31429000	22.84	14.6	0	0	267675	1100680	0.008	0
1250820731	16000000	501732463	2.49	59611698	11.88	5.54	0	0	253400	4666111	0.0093	0
123111129	2192000	44959282	2.74	1502196	3.34	8.57	0	0	156652	260763	0.0058	0
366105104	6000000	140550838	2.60	3498111	2.49	3.18	0	0	175032	1363343	0.0097	0
234571000	5780000	118178000	1.98	6483000	5.49	12.8	0	0	259732	768157	0.0065	0

Table 4. Food and Beverages Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
43495715	10000000	34045412	1.28	1855334	5.45	9.57	0	1	63399	0	0	17
30887638	3100000	12748591	2.42	1220756	9.58	4.38	0	1	40861	0	0	9
74892793	4131000	44633790	1.68	4993000	11.19	29.98	0	1	90169	84804	0.0019	13
23366599	1600000	19429990	1.20	1641850	8.45	4.3	0	1	40734	0	0	8
118111330	2100000	18091992	6.53	1300000	7.18	-4.27	0	1	9119	0	0	0
15645000	4560000	17414000	0.90	1313856	7.54	23.87	0	1	120096	0	0	0

Table 5. Furniture Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
74886537	950000	40966371	1.83	483964	1.18	6.68	0	1	109244	311344	0.0076	12
11704279	1120000	10924884	1.07	805466	7.37	23.66	0	1	75867	92861	0.0085	19
41434949	850000	13466932	3.08	3738398	27.76	8.26	0	1	72016	70028	0.0052	7

Table 6. Telecommunication Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
298100472	19000000	134039475	2.22	17829000	13.30	12.98	16084	1	372332	549561	0.0041	0

Table 7. Textile Companies

Assets	Size	Sales	Invest	Profit	Profit (%)	Growth	R&D	Resrc	Labour Intensity	Advert	Advert	Geogr
49732968	1926000	12719166	3.91	1740775	13.69	7.14	0	1	53895	49604	0.0039	8
100276918	2966000	56526297	1.77	7206890	12.75	8.69	0	1	49153	293936	0.0052	3
101544830	1788000	45091996	2.25	6092220	13.51	7.57	0	1	83504	211932	0.0047	12
24053915	1926000	16391013	1.47	4884610	29.80	13.93	0	1	109273	47534	0.0029	0